CANADIAN MODERN ACCOUNTING

A Treatise on Bookkeeping and Elementary Accounting, according to present day practice, including Exercises for the Student

FOR USE IN COMMERCIAL SCHOOLS
AND FOR SELF-ADVANCEMENT

Published in Three Editions

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PART 1

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Contents

Preface

Canadian Modern Accounting may be used as a textbook or as a book of reference. The instructions for the student using it as a textbook and working the exercises, are indented in order to distinguish them from the general reading matter, and may be disregarded by those using the work purely as a book of reference.

When using this book in commercial classes, it should be noted that the explanations and definitions are introduced at the point where they are necessary to explain some feature of the work then in hand, and not at the beginning of each chapter as in the average text, where they convey only a vague meaning to the student, should he read them at all.

In the exercises of the text the student is employed as bookkeeper for the firm of "George Adams," and with the exception of the exercises which are introduced to familiarise him with the various principles and features of bookkeeping and accounting, all the records are made in the books of the same firm, which is commenced as a Single Ownership, changed to a Partnership, and ultimately converted into a Joint Stock Company with various departments and branches.

All the forms and rulings illustrated in this text are modern and in conformity with those now generally used in practice. If the standard supplies outlined below are not used, the student cannot hope to derive full benefit from his work.

BLANKS AND SUPPLIES FOR "CANADIAN MODERN ACCOUNTING," PART ONE.

Blanks:— Elementary Cash Book, General Journal, Purchase Journal, Intermediate Cash Book, Advanced Cash Journal, Bill Books, Financial Statement Blank.

Other Supplies:—3 Pads of Printed Invoices and Duplicates (loose leaf); 1 Pad of Credit Notes (loose leaf); 75 General Ledger Sheets (loose leaf); 50 Sales and Purchase Ledger Sheets (loose leaf); 8 Recapitulation Sheets (loose leaf); 35 Perpetual Inventory Sheets (loose leaf); 8 Petty Cash Sheets (loose leaf); 30 Blank Drafts; 5 Promissory Notes; 1 Sheet Carbon Paper; 1 Outgoing Papers File; 1 Record Card.

BLANKS AND SUPPLIES FOR "CANADIAN MODERN ACCOUNTING," PART TWO.

Blanks (with special rulings):—
Examination Blank, General Journal, Purchase Journal, Transfer Register, Cash Journal, Expense Ledger, Expense Summary.

Other Supplies:—25 Purchase and Sales Ledger Sheets (loose leaf); 40 General Ledger Sheets (loose leaf); 10 Share Ledger Sheets (loose leaf).

By the use of the loose leaf supplies recommended above, the exercises in "Canadian Modern Accounting" constitute a business practice in which all the OUTGOING commerical papers are provided. Teachers have the option of using the text and loose leaf supplies listed above, or of introducing an additional business practice providing all the INCOMING papers and forms for Sections 1 to 11.

A Business Practice for Sections 1 to 11.

As suggested above, students may be supplied with a Business Practice (pamphlet form) for Sections 1 to 11, providing all the incoming business forms, and giving explanations and instructions in regard to business procedure and filing. The outfit consists of:—1 Pamphlet of Incoming Forms and Vouchers, including instructions; 1 Book of Check Counterfoils; 1 Package of Cancelled Checks; 1 Office File with seven subdivisions; Blank Statements Letter Paper and Deposit Slips.

Section 1

TRANSACTIONS FOR MONTH OF JANUARY.

§ 1. Why Records Are Necessary. It is self-evident that the man who does not work either with his hands or brains or both will not have any need for a record of his activities. It is business activities which first suggests the need for a record of some kind.

While the activities of individuals are varied in character, those which require the most numerous and accurate records are activities which have to do with buying and selling. The object of buying and selling is profit. If the money received or income from a sale is greater than the cost or outlay, the difference or result of the transaction is a profit and a consequent increase in the wealth of the trader, while on the other hand, if the income is less than the cost, the result is a loss.

When one has completed a business transaction which has involved the use of a portion of one's wealth for the purchase of any article which is intended for resale, it is customary to look for an opportunity to sell at a profit. When the opportunity to sell at a profit has resulted in the sale of the article, a comparison of the amount of money realized from the sale with the original amount of money used for the purchase of the article will easily establish the profit earned or the loss sustained from the two transactions. To illustrate: Suppose you decide to become a merchant or trader, that is you wish to buy and sell merchandise, hoping to make a profit. You have $500 in cash which you call your Capital. You decide to use $200 of this capital for the purchase of a horse. You spend $20 for feed and other expenses and in time sell the horse for $300. By comparing the money received, $300, with the money given in exchange for and expended on the horse, $200 plus $20 = $220, you can easily establish the amount of your profit, $80. When this increase in your wealth is added to your original capital, you find that your present capital is $580.

While such a simple problem can easily be calculated mentally, in order to work out the result it is necessary to have a clear mental picture of the different factors or stages of the transaction which may be enumerated as follows:—First, you had $500 *Capital;* Second, you used $200 to *Purchase* a horse; Third, the *Expenses* between the time of buying and selling were $20; Fourth, you *Sold* the horse for $300. With these figures in mind, it is very easy for you to arrive at the desired conclusion, viz., that you made a *Profit* of $80, and as a result your *Present Capital* is $580.

If the business of a merchant were confined to one simple transaction each year, it would not be necessary for him to keep a record of that transaction. The business of a year or of any given period consists of making many purchases and sales similar to the transaction stated above, and as some of the transactions may result in a gain while others result in a loss, it becomes absolutely necessary to make a record of each transaction, so that at the end of a stated period a summary may be made and the profit or loss ascertained. The records necessary to ascertain the profit or loss for all the transactions of a given period and the capital or wealth at the end of that stated period are precisely the same as those required for the simple problem stated in the illustration above, viz.: First, a record of *Capital* invested; Second, a record of *Purchases;* Third, a record of *Sales;* Fourth, a record of *Expenses;* Fifth, the addition of the *Profit* to the original *Capital* which will produce the *Present Capital*. The work of recording these various transactions and of systematizing these records so that the desired results may be easily obtained is called *Bookkeeping*.

In the simple transaction given, it was assumed that money was the medium of exchange, or in other words that the purchase and sale were made on a cash basis. If business could be conducted on the principle that cash would be paid immediately for all goods purchased and received immediately for all goods sold, the records suggested in the previous illustration would be sufficient. Unfortunately, owing to the lack of sufficient capital, merchants are unable to pay for all required merchandise on the date of

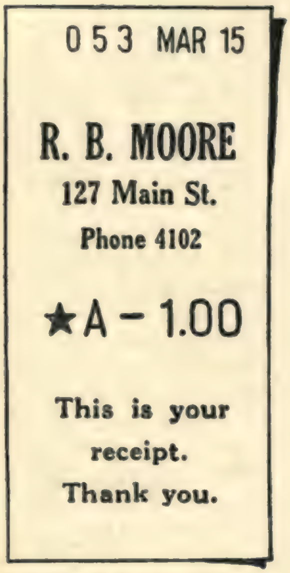


Illustration No. 1
Cash Register Slip

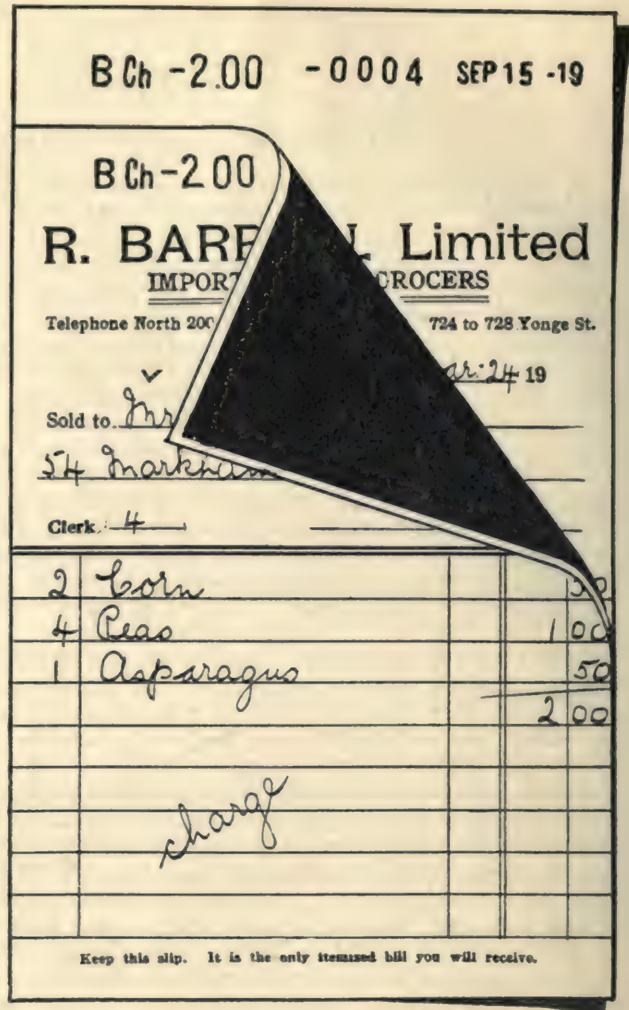


Illustration No. 2 Grocer's Bill

purchase and are usually given a short period of time in which to make payment. This is called *Buying on Credit.* Similarly it is not possible to sell all goods for cash and as a result the merchant is required to accept payment at a later date. This is called *Selling on Credit.* It, therefore, becomes necessary for the merchant to keep an accurate record of the amounts he owes as a result of credit purchases and the amounts due to him owing to credit sales. When these additional records have been added to those previously suggested, the complete record required so that a trader may know the capital with which he commences and finishes a stated period and the various forms in which his capital exists, are as follows:—First, *capital invested;* Second, *purchases;* Third, *sales;* Fourth, *expenses;* Fifth, *debts due by him;* Sixth, *debts due to him.*

§ 2. **Bookkeeping** is the art of correctly recording business transactions in a regular and systematic manner, or the art of keeping accounts.

§ 3. **The Object of Bookkeeping** is principally to present such records as will enable the trader or proprietor to find by reference to his books the profit or loss on all his transactions during a stated period and the particular form in which his wealth exists at the end of that period.

ORDER BLANK Our No. 1

Ship to Henry Bell & Co. Date Jan. 1. 19

Address 121 23rd St. Calgary Alta. Via. C.P.R. When Immediately

Terms 30 d. Net. Ordered By No. 4
MAIL, PHONE OR SALESMAN NO.

	ORDERED				
	2	gro. Pencils, #21 B.	12.00	24	00
	1	" Rulers, 12" #136	24.00	24	00
	2	lbs. Rubber Bands #85	4.80	9	60
	2	doz. W. W. Paste	3.20	6	40
				64	00

COPIED BY O.K. BY

Illustration No. 3 Traveller's Order

Naturally the student might expect to undertake the study of these records in the above order. That is not the order, however, in which the pupil will be asked to study and practise the keeping of these records, because it is the wish of the authors to present the work to the pupil in the simplest manner and in conformity with the practice which prevails in the business office. The junior bookkeeper on securing a position in an office is not usually given a task which has to do with investment or capital, nor is he usually required to undertake duty which has to do with buying. The records which are made for capital and purchases are made by the accountant or the head bookkeeper. The purchase records are not nearly so numerous as those which have to do with sales, because every merchant makes hundreds of sales for each purchase. Since the greater part of an office staff is engaged in keeping that part of the office records which concern sales, it is to this task the student must first give his attention.

§ 4. **Early Methods of Bookkeeping.** Years ago it was the custom to record all transactions irrespective of their nature in a Day Book. These transactions were next analysed in a Journal in which the titles of the accounts to be Debited and Credited were arranged in a prescribed form. The Debits and Credits were next posted individually to a Ledger. All these entries involved a tremendous amount of work and it accordingly became customary in more recent times to group transactions of a similar character, thus eliminating half of the entries which were required by the old-fashioned system. This process of segregating transactions of a similar nature has resulted in most modern offices in the use of various books, some of which may be briefly enumerated as follows:—1st, Sales Book; 2nd, Cash Book; 3rd, Purchase Book; 4th, Bill Book; 5th, Journal; 6th, Ledger.

§ 5. **The Student Employed as Bookkeeper.** You are now employed as bookkeeper for George Adams. As this is a young business, it will employ only one clerk in the office, and it will, therefore, become your duty to keep all the records. These records, as you have already learned, have to do with Capital Invested, Purchases, Expenses, Sales and the necessary summary or comparison of Purchases and Expenses versus Sales at the end of a given period.

The Capital has already been invested and a stock of goods has been purchased by Mr. Adams. You will be instructed how to make entries for these transactions at a later date.

FILE NUMERICALLY

ORDER
SHIPPER'S COPY

Our No. 1

Shipping Memo

Ship to Henry Bell & Co.
Address 121 23rd St.
Calgary, Alta.
Via. C.P.R.

Date Jan. 3
Order taken by #4
Ship on Jan. 3
Terms 30d Net

	SHIPPED	ORDERED	
		2	gro. Pencils #21 B
		1	" Rulers 12" #136
		2	lbs. Rubber Bands #85
		2	doz. W.W. Paste

HOW SHIPPED	NO. LBS.	NO. CASES	AMT. POST.	DATE SHIPPED	SHIPPED BY	NO. PARCELS	
C.P.R.	92	1		Jan. 3	#7		
EXPRESS CHG'D.	FREIGHT CHG'D.	CASES CHG'D	POST. CHG'D.	DATE BILLED	BILLED BY	BACK ORDER MADE OUT BY	ENTERED IN STOCK BOOK BY

Illustration No. 4 **Filled Order as received from the Shipping Room before Invoice is made**

Wholesale
Canadian Distributor for
Sprott's Fingerfit Penholders
and Sprott Pens

GEORGE ADAMS

CONDUCTING BUSINESS AT

CANADA

Telephone M 140
After Business Hours

FORM 235

Sold to Henry Bell & Co.
Address 121 23rd St.
Calgary, Alta.

Our No.
Date Jan. 3,
Via. C.P.R.
Terms 30d Net

		PRICE	DISC'T		
2	gro. Pencils #21 B	12.00		24.—	
1	" Rulers 12 #136	24.00		24.—	
2	lb. Rubber Bands #85	4.80		9.60	
2	doz. W.W. Paste	3.20		6.40	64.—

THE COMMERCIAL TEXT BOOK CO TORONTO

Illustration No. 5 **Invoice and Charge Sheet**

SALES RECORDS.

§ **6. Orders.** Sales result from "Orders." The nature of the business determines how orders are received. In a retail business orders are received over the counter, by telephone or by mail. In a wholesale business, orders are received from travelling salesmen (*travellers' orders*), by mail (*mail orders*), and over the counter or telephone (*house orders*).

§ **7. Cash Sales** are those for which the payment is made at the time of sale. *Credit Sales* are those made on credit, or for which payment is deferred to some future date. When sales are made for cash, very little bookkeeping is necessary, but when made on credit it becomes necessary to keep a record of amounts due from sales and payments made by customers. This forms the greater portion of the work in an office.

§ **8. Modern Method of Recording Sales.** In order to get an idea of the reason for the use of the present form of Sales Book, let us take as an example an everyday transaction with which you are familiar. Suppose you buy a pair of shoes for $10.00. In reality you have given a verbal or "house" order for these shoes. The clerk who serves you makes a bill. The writing on this bill is by means of carbon paper, transferred to a second or duplicate bill. If you pay for the shoes the bill is marked "paid" and the transaction is completed, but if you do not pay for them, the bill is marked "charge" and the goods are said to be sold "on account." The original bill is then handed to you and the copy is sent to the office.

The use of these duplicates to represent the sales in a retail store has led to the adoption of the same plan for recording sales in a wholesale house, and using a traveller's order as an example, may be explained as follows:—Orders are received from travellers. These orders when received by the office are numbered and placed on a file. They are in turn carefully examined by a "*Credit man*," an employee whose duty it is to scrutinise the financial standing of every customer in order to ensure the giving of credit to those only who are financially capable of making payment, and to see that too large a credit is not given to customers of moderate means. The order when O.K.'d by the credit man is usually copied in duplicate or triplicate. Sometimes a great many copies of the order are made, each to serve a different purpose. One of these records is usually forwarded to the customer as an "*acknowledgment*," and another which is called a "*Shipper's Order*" or "Shipping Order" is sent to the shipping room. From this copy the goods are collected from the various departments, packed and shipped. This Shipper's Order is then certified by the shipper and returned to the office, and is afterwards known as a "*Filled Order.*"

§ **9. Invoice, Bill, Slip.** Almost every firm gives each customer a bill with every purchase, whether it be a bill automatically turned out by the cash register, usually called a "*Slip*" (see illustration No. 1), the written *bill* given by the retailer (see illustration No. 2), or the written or typewritten bill given by the wholesale house. The latter is called an "*Invoice*" (see illustration No. 5).

§ **10. Billing or Invoicing.** When Filled Orders have been returned to the office, it is the duty of an invoice clerk to make an invoice for each. The invoices are made in duplicate. The original is forwarded by mail to the customer and the duplicate which is called the "*Charge Sheet*" is filed in a loose leaf binder and forms the "*Sales Book.*" The Sales Book is sometimes called the "*Day Book.*" This system of recording Sales is known as the "*Bill and Charge System*" or the "*Manifold Billing System.*"

> Place the loose leaf index in your Loose Leaf Binder.
>
> Selecting your invoice pad, insert a sheet of carbon paper and a yellow sheet for a carbon copy, under the first invoice. Make an invoice for the first Filled Order on page 12 according to illustration No. 5. Tear off the invoice and file it in your Outgoing Papers File. This invoice in actual business would be mailed to your customer. Next file the carbon copy in your loose leaf binder under the tab "Sales Book." Complete the invoicing of the other Filled Orders on page 12 in the same manner.

NOTE.—In order to avoid wasting invoice forms you should first make a calculation in your exercise book and have the figures verified by your teacher.

FILLED ORDERS.

The following Filled Orders have been received from the shipping room:—

1. Jan. 3, 19 . Henry Bell & Co., 121-23rd Street, Calgary, Alta., via C.P.R. Terms Net 30 days. 2 gro. Pencils, 21 B. @ $12.00; 1 gro. Rulers, 12" #136 @ $24.00; 2 lb. Rubber Bands #85 @ $4.80; 2 doz. W.W. Paste @ $3.20. Place the original in the Outgoing Papers File and place the duplicate in the Loose Leaf Binder under the tab "Sales Book."

2. Jan. 3, 19 . A. R. King & Son, 149 Government Street, Victoria, B.C., via C.P.R. Terms Net 30 days. 2M. Paper Fasteners, S. 2 @ $2.40; 3 gro. Penholders, "Fingerfit" @ $15.00; 1 gro. Penholders, "Velvet" @ $12.00; 1 Letter Book #296, 1,000 pp. @ $6.00; 1 Cash Book #412, 500 pp. @ $4.50; 1 L. L. Binder #415 @ $12.00; 1M. Ledger Leaves #415 @ $9.00. File the original and duplicate as directed above. Invoice No. 2 should be placed over No. 1 in the Sales Book so that the last invoice written will be on top.

3. Jan. 4, 19 . A. C. Graham & Co., Main Street, Winnipeg, Man., via C.P.R. Terms Net 30 days. 2 gro. Rulers, 15" #137 @ $32.00; 1 gro. Pencils #21 HB. @ $12.00; 4M. Paper Fasteners, S. 2 @ $2.40; 12 gro. Pens, Sprott's #2 @ $1.60· 12 gro. Pens, Sprott's #3 @ $1.60; 1 gro. Erasers, P. & P. #414 @ $5.60.

4. Jan. 4, 19 . W. K. Wright, 432 Hastings Street, Vancouver, B.C., via Dom. Exp. Coll. Terms Net 30 days. 2 gro. Penholders, "Fingerfit" @ $15.00; 2M. Paper Fasteners, S. 2 @ $2.40; 1 gro. Erasers, Typewriter #240 @ $12.00; 3 doz. W.W. Paste @ $3.20; 5 lb. Rubber Bands #85 @ $4.80.

5. Jan. 5, 19 . J. D. Russell & Co., 124 St. Catherine St. W., Montreal, P.Q., via G.T.R. Terms Net 30 days. 1 L. L. Binder #415 @ $12.00; 1 Journal #412, 500 pp. @ $4.50; 1 Cash Book #412, 500 pp. @ $4.50; 2M. Ledger Leaves #415 @ $9.00; 2 gro. Penholders, "Fingerfit" @ $15.00; 2 gro. Penholders, "Velvet" @ $12.00.

6. Jan. 5, 19 . Henry Bell & Co., 121-23rd Street East, Calgary, Alta., via C.P.R. Terms Net 30 days. 1 gro. Rulers, 12" #136 @ $24.00; 12 gro. Pens, Sprott's #10 @ $1.60; 2 gro. Penholders, "Velvet" @ $12.00; 1 gro. Penholders, "Fingerfit" @ $15.00; 1 L. L. Binder #415 @ $12.00; 1M. Ledger Leaves #415 @ $9.00.

7. Jan. 6, 19 . C. R. Andrews, 559 Bank Street, Ottawa, Ont., via C.N.R. Exp. Coll. Terms Net 30 days. 1 lb. Rubber Bands #85 @ $4.80; 2 gro. Penholders, "Velvet" @ $12.00; 6 gro. Pencils #21 B. @ $12.00; 6 gro. Pencils #21 HB. @ $12.00; 1 doz. W.W. Paste @ $3.20; 1 Journal #412, 500 pp. @ $4.50.

8. Jan. 6, 19 . A. R. King & Son, 149 Government Street, Victoria, B.C., via Dom. Exp. Coll. Terms Net 30 days. 12 gro. Pens, Sprott's #2 @ $1.60; 12 gro. Pens, Sprott's #3 @ $1.60; 12 gro. Pens, Sprott's #10 @ $1.60; 1 Journal #412, 500 pp. @ $4.50.

9. Jan. 6, 19 . Henry Bell & Co., 121-23rd Street East, Calgary, Alta., via Dom. Exp. Coll. Terms Net 30 days. 2 Binders #415 @ $12.00; 2M. Ledger Leaves #415 @ $9.00; 1 L. L. Index 28's, Can. Tabs @ $3.00.

10. Jan. 6, 19 . A. C. Graham & Co., Main Street, Winnipeg, Man., via Dom. Exp. Coll. Terms Net 30 days. 1 gro. Erasers, Type. #240 @ $12.00; 1 gro. Penholders, "Velvet" @ $12.00; 12 gro. Pens, Sprott's #10 @ $1.60; 5 gro. Pens, Sprott's #3 @ $1.60; 1 Letter Book #296, 1,000 pp. @ $6.00.

11. Jan. 8, 19 . W. K. Wright, Hastings Street, Vancouver, B.C., via C.P.R. Terms Net 30 days. 2 gro. Rulers, 15" #137 @ $32.00; 2 gro. Rulers, 12" #136 @ $24.00; 2 L. L. Binders # 415 @ $12.00; 2M. Ledger Leaves #215 @ $9.00; 6 gro. Penholders, "Velvet" @ $12.00; 6 doz. W.W. Paste @ $3.20.

12. Jan. 8, 19 . The Peoples Stationery Co. Ltd., your own town or city, via Delivery. Terms Net 30 days. 1 gro. Penholders, "Velvet" @ $12.00; 1 gro. Penholders, "Fingerfit" @ $15.00; 1 gro. Erasers, P. & P. #414 @ $5.60; 2 gro. Erasers, Type. #420 @ $12.00; 1 lb. Rubber Bands #85 @ $4.80.

13. Jan. 12, 19 . Robt. Duncan & Co., Hamilton, Ont., via Can. Exp. Coll. Terms Net 30 days. 12 gro. Pens, Sprott's #1 @ $1.60; 2 gro. Penholders, "Fingerfit" @ $15.00; 1 lb. Rubber Bands #85 @ $4.80; 2 gro. Erasers, P. & P. #414 @ $5.60; 2M. Ledger Leaves #415 @ $9.00.

14. Jan. 12, 19 . Henry Bell & Co., 121-23rd Street East, Calgary, Alta., via Dom. Exp. Coll. Terms Net 30 days. 2M. Paper Fasteners, S. 2 @ $2.40; 1 gro. Penholders, "Velvet" @ $12.00; 1 Journal #412, 500 pp. @ $4.50; 1 Letter Book #296, 1,000 pp. @ $6.00; 1 Cash Book #412, 500 pp. @ $4.50.

15. Jan. 12, 19 . C. R. Andrews, 559 Bank Street, Ottawa, Ont., via C.P.R. Terms Net 30 days. 4 gro. Rulers, 12" #136 @ $24.00; 2 doz. W.W. Paste @ $3.20; 6M. Paper Fasteners, S. 2 @ $2.40; 2 L. L. Binders #415 @ $12.00; 3 gro. Penholders, "Fingerfit" @ $15.00; 12 gro. Pens, Sprott's #1 @ $1.60.

See that all the Original Invoices are filed in the Outgoing Papers File and that the duplicates are all placed in the Sales Book in proper numerical order, the last invoice completed appearing on top.

Have the amounts of the invoices checked by your teacher.

§ 11. The Day Book. In offices where the Manifold Bill and Charge System has *not* been introduced, it would be necessary for the bookkeeper to enter a complete record of each sale in a book. Such a book is sometimes called a *Day Book* and sometimes a *Sales Book.* The terms in bookkeeping are synonymous. If a record be made in the Sales or Day Book, the invoice must still be made and sent to the customer. When the Bill and Charge or Manifold Billing System is used, the necessity of making a separate record in the Sales Book is eliminated since both the invoice and copy which is used as the sales record are made in one operation.

EXAMINATION.

1. What is Bookkeeping?

2. What is the object of Bookkeeping?

3. Explain what is meant by the words "Sold on Credit."

4. Why is it necessary to keep a record of all "credit sales?"

5. When goods are sold "on account" or "on credit" what form or paper is given to the purchaser?

6. What is an "Invoice?"

7. What is a "Charge Sheet?"

8. In actual business, what is done with "Invoices" of goods? What is done with "Charge Sheets?"

9. What is a Day Book?

Section 2

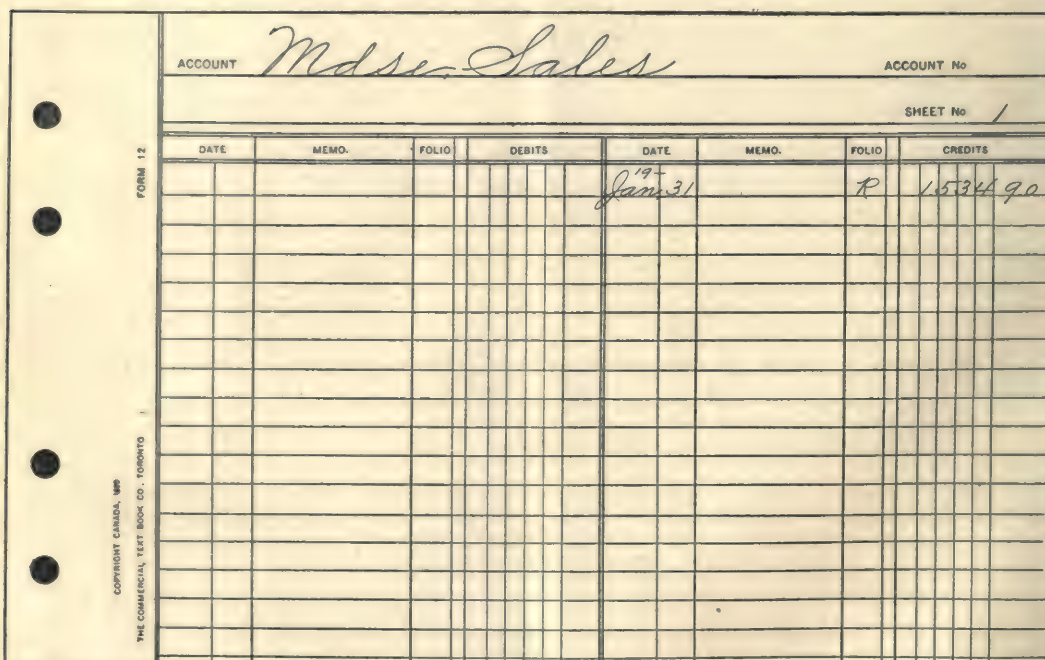
TRANSACTIONS FOR MONTH OF JANUARY—(Continued).

THE LEDGER.

§ 12. By reference to your Sales Book or Charge Sheets, you can note all the sales made during a certain period, the customers to whom you sold goods, and other details which it is necessary for the bookkeeper or proprietors to know. By looking over the Charge Sheets, you can readily see the number of sales to an individual customer, and by totalling all the sales to that customer, you can figure out the amount owing to your firm by him. But this would be a very tedious method of finding the amount owing to your firm by any customer. To make your work easier, you should enter the amount sold to each person, on a sheet set aside for him alone. Such a sheet is called a *Customer's Account.*

Since this account is a record of transactions with a person or firm, it is called a "*Personal Account,*" and since this particular personal account shows an amount due to us or to be received by us, it is called a "*Personal Account Receivable.*" These accounts are kept in a book or binder called a Ledger. For convenience the Ledger is usually divided into sections in which are grouped the various accounts of a similar nature. Thus all accounts receivable are kept together in a section of the Ledger called the "*Sales Section*" or "*Sales Ledger.*" The Sales Ledger is sometimes called a "*Customers' Ledger.*" When the accounts in any particular division of a Ledger become so numerous that they make the Ledger too cumbersome, they are usually placed in a separate binder.

¶ *A Ledger* is a book in which accounts are kept.


ACCOUNT Mdse. Sales ACCOUNT No

SHEET No 1

DATE	MEMO.	FOLIO	DEBITS	DATE	MEMO.	FOLIO	CREDITS
				19— Jan. 31		R	1534 90

FORM 12

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Illustration No. 6.

Standard or Centre Ruled Ledger, used as a General Ledger Sheet, illustrating the Merchandise Sales Account

§ **13. A Personal Account Receivable** is a record in the Sales Ledger or a section of a Sales Ledger showing the name of the customer, his address, the date, terms, and amount of each sale, and the payments made by him. The accounts you will open will for the present show sales only. See illustration No. 9. Payments also will be recorded in these accounts at a later date.

§ **14. Ledger Rulings** vary to a very great extent, but no matter what the ruling may be, the student must remember that *the space or money column set aside for debit amounts is called the debit side, and that set aside for credit amounts is called the credit side of the ledger.* Until recent years the style of ruling in illustration No. 6 was almost exclusively used. It is called the *Standard,* Centre Ruled, or Old Style Ruling and is still used by many firms for general ledger accounts. For the Sales Ledger this style has been almost universally discontinued for the reason that the results of accounts, or balances, found in the Sales Ledger must of necessity be entered either daily, weekly or monthly in some convenient place on the ledger sheet to facilitate sending a statement of account to each customer, and as no provision for recording this balance is made on the standard sheets, a special sheet with the column for balance has quickly superseded the standard sheet for use in the Sales & Purchase Ledgers. See illustration No. 7. This ruling is frequently called the *Bank Ledger Ruling.* It is sometimes found an advantage to set aside a column for debit balances and another for credit balances. See illustration No. 9. As all these styles are found in business offices, and as it is the purpose of this work to familiarize the pupil with various conditions, both the standard and more recent ruling will be used. In the General Ledger the standard ruling will be used. In the Sales Ledger & Purchase Ledger the bank ledger ruling will be used. See illustration No. 9.

§ **15. Posting.** As previously explained, it would be a difficult and tedious matter to find from the Charge Sheets the amount owing by any particular customer. To overcome the necessity of looking over the pages of the Charge Sheets in order to get this result, we must open accounts in our Sales Ledger, (one for each customer), and must enter on the left or "*Debit*" side, the date, terms, invoice number, and amount of each sale to that customer. See illustration No. 9. For example, the first sale according to your Charge Sheets is to Henry Bell & Co., address 121-23rd St., Calgary, Alta.

> Select a Sales Ledger Sheet, (one with ruling similar to that used in illustration No. 9), and enter on the top lines the name and address, thus, Bell & Co., Henry, 121-23rd St., Calgary, Alta. At the top right corner after Sheet No. place the figure "1." Next in the date column, on the left side, enter the date of sale. Be sure to enter the year at the top of the first date. In the memo. section enter the terms of sale and in the folio column enter the "invoice number." Enter the amount in the "debit" money column. On the Charge Sheet place the capital "L" as a check mark to show that this amount has been entered in the Ledger. This is called "*Posting.*" For the present the Balance columns will not be used.

¶ *Posting* is transferring items to the ledger.

¶ *In an office where a number of employees are engaged,* it is customary to divide the work so that each employee will be responsible for a definite portion of the records. One or more may have charge of the Billing, while the Ledgers may be in charge of others. As you must become familiar with all the duties of a bookkeeper, you will now change your work from billing to posting.

> Post all the sales to date according to your Sales Book or Charge Sheets. As you post each item on the Charge Sheet, enter a capital "L" to show that this particular invoice has been posted to the Ledger*. File each Ledger Account in its proper alphabetical order under the tab "Sales Ledger."

*Do not make out two ledger sheets for the same customer but post all sales to one customer to the same ledger sheet.

FORM 30

ACCOUNT King & Son, A.R. RATING D+2 ACCOUNT No. ____

ADDRESS 149 Government St, Victoria, B.C. LIMIT 1500.00 SHEET No. 1

DATE		MEMO.	FOLIO	✓	DEBITS	✓	CREDITS	✓	BALANCE
19– Jan.	3	30d N	2		93 30				
"	6	30d N	8		62 10				155 40
Feb.	10		C2				60 —		95 40
Apr.	1		C2				95 40		
May	26	30d N	32		159 60				159 60
June	20	30d N	43		128 —				
"	12		C4				100 —		187 60

THE COMMERCIAL TEXT BOOK CO., TORONTO

Illustration No. 7 **Bank Ledger Ruling, illustrating a Personal Account Receivable**

FORM [illegible]

ACCOUNT ____ RATING ____ ACCOUNT No ____

____ LIMIT ____ SHEET No. ____

DATE	MEMO.	FOL	✓	DEBITS	✓	BALANCE	DATE	MEMO.	FOL	✓	CREDITS

THE COMMERCIAL TEXT BOOK CO., TORONTO

Illustration No. 8 **Centre Ruled Ledger with Balance Column in centre of page**

ACCOUNT *Bell & Co. Henry* RATING *F* ACCOUNT No. ______

ADDRESS *121 23rd St., Calgary, Alta.* LIMIT *5000.00* SHEET No. *1*

DATE		MEMO.	DISC'T DATE	FOLIO	DEBITS	CREDITS	DR. BALANCE	CR. BALANCE
19— Jan.	3	30d Net		1	64 —			
"	5	30d Net		6	103 20			
"	6	30d Net		9	45 —			
"	12	30d Net		14	31 80		244 —	
Feb.	6			C2		64 —	180 —	
Apr.	10			C2		148 20	31 80	
May	1	30d Net		16	384 —			
"	1	30d Net		21	33 60			
"	10	30d Net		25	96 —			
"	1			C4		31 80		
"	26	30d Net		31	1216 —		1729 60	

Illustration No. 9 Ledger Sheet with Dr. and Cr. balance columns, illustrating a Personal Account Receivable (Bank Ledger Ruling)

You have now posted the amount sold to each customer to his account in the Sales Ledger. Every entry has been made on the "*Dr.*" side of the Personal Account. Each Personal Account, when totalled, shows on the "Dr." side the total sales to that customer, and since no payments have been made, the total of the "Dr." side of each account shows the amount owing to your firm by each customer. These accounts are called "*Personal Accounts Receivable*" because they show amounts to be received from customers when payments are made.

§ 16. **Debtors.** The individual Accounts Receivable show the debts of your customers owing to you, therefore customers whose accounts show a balance in your favor are called *Debtors*.

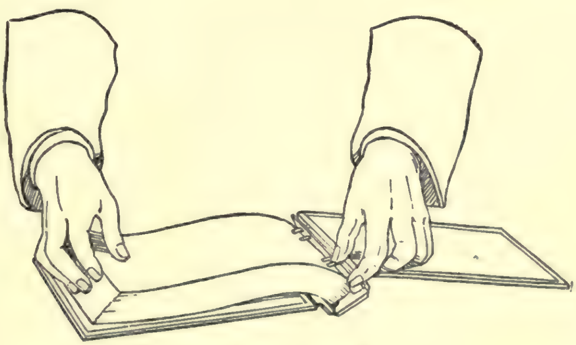


Illustration No. 10 The Loose Leaf Binder

§ 17. **The Advantage of using Loose Leaf Books.** Loose Leaf Books have come into such common use that little need be said about them. Many years ago all books were securely bound so that the pages could not be removed unless they were torn out.

In later years, however, the use of the loose leaf binder for almost all purposes has come into general use. The advantages of the loose leaf binder can readily be seen even in the limited work you have already completed. The filing of your Charge Sheets in a loose leaf binder saved you the trouble of making a copy of every invoice in a Day Book or Sales Book. The loose leaf idea as applied to the Ledger has many advantages. The accounts in such a ledger can be arranged in any order desired. They are usually placed in alphabetical order and the index, instead of being placed at the beginning of the book as in the case with the ordinary bound Ledger, runs through the Ledger dividing the accounts alphabetically, or otherwise, as desired. When one ledger sheet has been filled, another may be inserted so that the account sheets of each customer may either be removed or kept together for several years if necessary. In the bound Ledger a space is set aside for each customer and when the space has been filled another space in perhaps an entirely different part of the Ledger is set aside for the same customer, necessitating a change in the index which makes future reference difficult. In a business office, Loose Leaf Ledgers are frequently provided with one or more locks to overcome the possibility of the removal of sheets by unauthorized persons.

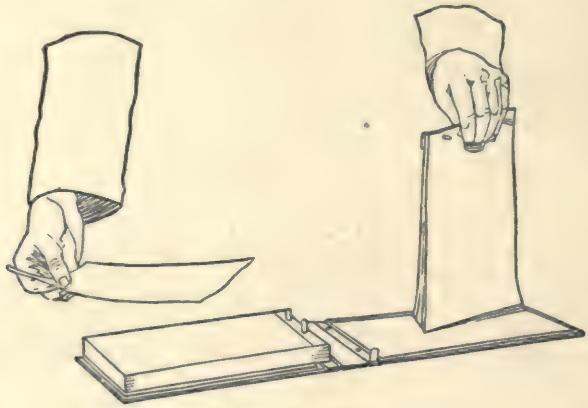


Illustration No. 11 The Loose Leaf Binder

MERCHANDISE SALES ACCOUNT.

§ 18. Profit is excess of selling price over cost, and in a mercantile business is brought about by buying merchandise at one price and selling it for a greater price.

§ 19. Loss is the opposite to profit. In a business transaction it is the amount by which the cost price exceeds the selling price.

§ 20. If you refer to page 7 you will note that one of the objects of bookkeeping is to enable the owner of a business to find what is owing to him. This can now be done by referring to the "Personal Accounts Receivable" in the Sales Ledger. Another object is to enable the proprietor to ascertain the profit or loss during a certain period. This cannot be done unless an account or record is kept of all sales. You are not yet in a position to calculate the profit or loss on your trading because you have been concerned only with charging each customer with the individual amount sold to him, and have not yet figured the total amount of your sales. If, therefore, you are *ever* going to be able to figure the profit on these transactions, you must have before you a record of the *total* sales of your Merchandise. Such a record is kept in the "*Mdse. Sales Account.*"

Recapitulation of Sales & Credits

SALES									CREDITS		
MONTH Jan. 19–			MONTH			MONTH			MONTH		
No	✓	AMOUNT	NO.	✓	AMOUNT	No	✓	AMOUNT	NO.	✓	AMOUNT
1		64 —									
2		93 30									
3		129 60									
4		80 40									
5		93 —									
6		103 20									
7		180 50									
8		62 10									
9		45 —									
10		57 20									
11		245 20									
12		61 40									
13		83 20									
14		31 80									
15		205 —									
L		1534 90									

FORM 210.

Illustration No. 12

§ **21. Summary or Recapitulation of Sales.** At the end of a definite period it is the duty of the bookkeeper to transfer to the Mdse. Sales Account the total sales for the preceding period. These items might be transferred individually if the space in the ledger would permit, but as it is always desirable to conserve the space in the ledger, these sales are first listed in numerical order on a sheet called a* "*Recapitulation of Sales and Credits.*" The sales are then totalled and are posted from this sheet to the Ledger.

This is Jan. 31st. In the office of George Adams the total sales of merchandise will be posted at the end of every month only. Select a Recapitulation Sheet which is provided with your stationery and supplies. Open your Loose Leaf Binder at the Sales Book Section, Charge Sheet No. 1. Enter on the Recapitulation Sheet, the month, the number and amount of charge sheet No. 1. Check the work which you have done by entering on the charge sheet "R" to show that this amount has been recorded on the Recapitulation Sheet. List all the sales on the Recapitulation Sheet in this manner and when completed, total the sales showing the footing in small neat lead pencil figures. This total is the amount of your *merchandise sales* to date. Have the amount verified by your teacher. If correct enter the amount with ink and rule the Recapitulation Sheet according to illustration No. 12.

Open a "Merchandise Sales" account using the centre ruled or standard ledger sheet (the one without the balance columns). Place it in your binder under the tab "General Ledger."

Post the total sales as shown on the Recapitulation Sheet to the right or Credit side of the "Merchandise Sales Account." Enter "R" in the memo. column of the ledger to show that this item has come from the Recapitulation Sheet. Enter on the Recapitulation Sheet to the left of the total sales just posted, the letter "L" as a check mark to indicate the posting of this item to the Ledger. File the Recapitulation Sheet under the proper tab in your binder.

Merchandise Sales Account has been credited with the total sales of merchandise. (See illustrations Nos. 6 and 12.)

* To recapitulate means to "Sum Up". Therefore a Recapitulation Sheet is a "summing up" sheet or a Summary.

§ **22. Account.** An Account in its broadest sense may be said to be a systematic record of financial facts arranged in such a way that a definite result or conclusion can be easily obtained. Any record is in reality an account in which are figures systematically arranged so that those of the same class or those which might be termed "*positive*" are collected together and set out for easy comparison with another class or those which might be termed "*negative*." For purposes of bookkeeping, the separation of "positive" and "negative" elements is accomplished by the use of columns in which are entered all figures of a similar tendency while opposite these figures for convenience are set aside other columns for further information. This final separation takes place in the Ledger, the ruling of which varies according to the nature of the records kept. These accounts may be the record of some form of wealth or property, an indebtedness to us or by us, or any other result that is desired.

In the work you have just completed you have set aside in your Sales Ledger a sheet for each person to whom you have sold goods on credit. This sheet or account has a Dr. and Cr. section. In the Dr. section you have entered all amounts which show your customers' indebtedness to you, while in the Cr. section at a later date you will record the deductions to be made from this indebtedness owing to payments made by them. The difference between the total indebtedness (total debits) and the deduction from the indebtedness (payments or total credits) will show the desired result or conclusion—the net indebtedness or *balance due*.

Again, you have considered it necessary to keep a record of the sales of merchandise. For this purpose you have opened an account for Merchandise Sales. On the credit side you have recorded all sales. It might be necessary at a later date to record deductions from these sales owing to the return to you of some of the goods sold. The result, or conclusion, or *balance* of this account will naturally show the net Merchandise Sales.

§ **23. The Balance of an Account** is the difference between the greater and smaller sides of the account and may be in favor of the debit or credit side according to the nature of the account. If the sum of the debits is greater than the sum of the credits, the excess is said to be a *Debit Balance*. If the sum of the credits is greater than the sum of the debits the result is called a *Credit Balance*. To *Debit an account* is to enter or set down an amount in the debit column or on the debit or left side of an account. To *Credit an Account* is to enter or set down an amount in the credit column or on the credit or right side of an account.

THE TRIAL BALANCE.

§ **24.** In the Ledger you now have entered on the left, or Debit side, in the various Personal Accounts Receivable, the *itemized sales*, and in the Merchandise Sales Account, on the right or Credit side, you have entered the *total sales* of merchandise *in one sum*. You can easily see that the totals on the "Dr." side of the ledger, if added, should be equal to the total on the "Cr." side. Let us see if they balance.

> First, foot or add the debit side of each account in which there is more than one item and with a sharp hard lead pencil, place the total or footing in small figures just below the last item, in each account. In a similar manner place the total on the right or "Credit" side of "Merchandise Sales" account. On a separate sheet of paper place the following heading, "George Adams, Trial Balance, Jan. 31," and enter the names and totals of every account in the Ledger in the Dr. and Cr. columns as in illustration No. 13. If the sum of the total Debits is equal to the sum of the total Credits, the Ledger is said to be in balance, and the statement just made is called a *trial balance*. Copy your Trial Balance, if correct, in your Financial Statement Blank.
>
> In a business a Trial Balance is taken daily, weekly, or monthly.

NOTE.—The Loose Léaf Binder which you have been using contains your Sales Book, Recapitulation of Sales Sheets and your Ledger. Your Ledger is divided into three sections, *General Section, Purchase Section* and *Sales Section*. When your ledger is referred to in the explanations and directions given in

this book, always remember that the ledger is *not* all the sheets contained between the two covers of your loose leaf binder, but those sheets only which are filed under the three tabs, "General Ledger," "Purchase Ledger" and "Sales Ledger." Remember also that when your ledger is spoken of these three sections are included under one term, "Ledger."

DOUBLE ENTRY BOOKKEEPING.

§ **25.** Now examine what you have done. Every amount which has been posted in any account in your ledger in a *Debit* money column has also helped to make up the total which has been posted to some other account in a *Credit* money column. The result of every transaction now appears on both debit and credit sides of the ledger. The number of entries on each side need not correspond but the amount must. When records are kept in this manner, the system is known as Double Entry Bookkeeping, and it is this double entry method which makes it possible for you to make a Trial Balance. Although you have called a certain part of your ledger the Sales Ledger and another part the General Ledger, each of these will *not* balance in itself, but only the whole taken together.

§ **26. A Trial Balance** is a test statement to ascertain whether or not the Debit and Credit sides of the Ledger are equal.

§ **27. A Trial Balance Does Not Prove** the absolute accuracy of your work. It merely proves that whatever amounts have been posted to the Debit side of your Ledger, have also been posted to the Credit side. It would not disclose an error in invoicing, or, of posting an amount to the wrong personal account.

§ **28. Rules for Debiting and Crediting.** Each record you have made has resulted from a business transaction. Every business transaction involves an equal exchange of values, namely, that value or benefit received and that value or benefit given. The accounts in your Ledger which represent the *values received* owing to the sales you

George Adams
Trial Balance, Jan. 31, 19—

	Debits	Credits
Mdse. Sales		1534 90
Andrews C. R.	385 50	
Bell & Co. Henry	244 —	
Duncan & Co. Robert	83 20	
Graham & Co. A. C.	186 80	
King & Son A. R.	155 40	
Peoples Stationery Co.	61 40	
Russell & Co. J. D.	93 —	
Wright W. K.	325 60	
	1534 90	1534 90

Illustration No. 13 Trial Balance, using Totals of Accounts

have made, are the individual Personal Accounts Receivable, and as these accounts have been debited we establish the rule for our future guidance that *the account that receives the value or benefit is debited.* On examining the other side of each transaction, you find that in each case you have *given* your goods which are recorded in your books as Merchandise Sales. Thus we establish the rule that Accounts *giving* or *yielding* the *benefit must be credited.*

EXAMINATION.

1. What is a Loose Leaf Binder?
2. Before any work was done by you, what was placed in your Loose Leaf Binder?
3. What is the first tab in your Index?
4. What is a Sales Book?
5. What were you instructed to place under the tab "Sales Book"?
6. Name the next three tabs in your Loose Leaf Binder.
7. When these three tabs are spoken of as one, what are they called?
8. What is a Ledger? What is an Account? What is a Ledger Account?
9. What is the third tab in your Ledger?
10. What is kept in the Sales Ledger or Sales Section of your Ledger?
11. What is a Sales Ledger?
12. What is Posting?
13. Which is the debit side of a Ledger Account of standard ruling?
14. Which is the credit side of a Ledger Account of standard ruling?
15. What is meant by the term "to debit an account"?
16. What is meant by the term "to credit an account"?
17. What amounts are posted to the Debit of customers' accounts?
18. Why are individual accounts kept with customers?
19. What is a Recapitulation of Sales of Merchandise?
20. Into what account in the ledger is the total Sales posted?
21. On which side of the Merchandise Sales Account is this amount posted?
22. Into what section of your ledger is the Merchandise Sales Account placed?
23. What is a Trial Balance?
24. Should all the accounts in your ledger be included in the Trial Balance?
25. Would it be correct to include in the trial balance figures or amounts not taken from the ledger?
26. To what extent does a Trial Balance prove the accuracy of your work?
27. What is meant by "Double Entry Bookkeeping"?
28. What is the last tab of your index?
29. Are the sheets filed under the last tab in your loose leaf index considered a part of the ledger?
30. What is the balance of an account? What is a "debit balance"? What is a "credit balance"? When is an account said to be "in balance"?
31. Are the "Debit" and "Credit" columns of a ledger always in the same position on ledger paper or ledger sheets?
32. Ledger sheets are sometimes ruled with a heavy line down the centre dividing the sheet into two sections, having a debit money column to the left of the centre and a credit money column on the extreme right of the sheet. What is the name usually applied to such a ledger ruling?
33. If a ledger sheet or page be ruled to provide Debit and Credit money columns and either one or two balance columns to the right of these, what is the name usually applied to such a ledger ruling?
34. Have you been instructed to use ledger sheets of the same ruling in your General and Sales Ledgers?
35. What style of Ledger Sheet have you been instructed to use in your General Ledger or "General" section of your Ledger?
36. What style of Ledger Sheet have you been instructed to use in your Sales Ledger or "Sales" section of your ledger?

Section 3

THE CASH BOOK.

§ **29. Cash Received.** In order that you may become familiar with one duty at a time, during the month of January you were given sales only. It would be very unusual in business not to have cash payments during a month. For the purposes of your work, these payments have been deferred until the month of February, so that you will get a clear idea of a personal account receivable, 1st, before cash payments have been received; 2nd, after cash payments have been made. Merchandise sold on credit must at some time be paid for. Payment of an account may be made by Money, Post Office Order, Postal Note, Express Order, Bank Draft, or Check. All of these are recorded in our books as Cash. For purposes of bookkeeping *Cash* is any negotiable paper or document payable on demand or that can be immediately converted into money. It is usual for customers to make payment by check. See illustrations Nos. 16, 17, 18 and 19.

§ **30. Cash Book.** For the purpose of recording the amount of cash received and of giving credit to the person who has sent it, it is customary for firms to keep a "Cash Book." See illustrations Nos. 14 and 15.

§ **31. The Ruling of the Cash Book** occupies two pages set opposite each other, the left page being set aside for "Cash Received" and the right page for "Cash Paid." At present you will be concerned with Cash Received only.

> The only cash received in January was the amount of $10,000 invested by the proprietor. This amount being received by the business from George Adams, the proprietor, to be used as capital with which to do business must be entered on the Received side of the Cash Book, and as it forms the working capital of the business, it will be entered in the Credit column to George Adams ("Capital").
>
> When cash is received by you from a customer, it is necessary for you to enter on the "Received" side of the Cash Book the date, the name of the person from whom the amount is received, and the amount received. In this way enter all the cash received so that at any time by adding the column you can show the total cash on hand.

Mr. Adams has advised you that the following checks have been received:

Feb. 3rd. C. R. Andrews, $100.; Feb. 6. Henry Bell & Co., $64.; Feb. 6. A. C Graham & Co., $50.; Feb. 10. Robert Duncan, $25.; Feb. 10. A. R. King & Son, $60

Make the proper record in the Cash Book.

NOTE.—A *Check* is an order on a bank to pay to the holder a certain sum of money. When a check is presented at the bank for payment, the bank usually charges a small amount for its trouble. This can be overcome by the payment of this amount by the person sending the check. In that event the check is marked "*Payable at Par.*" This means that anyone presenting the check at a bank for payment, can get the *face value* or the amount written on the face of the check without any deduction by the bank. All the checks which you have received have been payable at par at your bank.

§ **32. Depositing Money in the Bank.** As a general rule, business firms do not keep in their possession the money they receive from day to day, but *deposit daily* all money received, for safe keeping in some Chartered Bank. The method of depositing and the many advantages of depositing cash in a bank will be explained later in your work.

Cash

		ACCOUNT CR.	MEMO.		Receipts		Deposits	
19— Jan.	1	Capital (G. Adams)	Investment	✓	10000	—		
Feb.	3	Andrews C. R.	a/c	✓	100	—		
"	6	Bell & Co. Henry	a/c	✓	64	—		
"	6	Graham & Co. A. C.	a/c	✓	50	—		
"	10	Duncan Robt.	a/c	✓	25	—		
"	10	King & Son A. R.		✓	60	—	10299	—
					10299	—		

Illustration No. 14 **The Cash Book, Debit Side**

A special column in the cash book is usually used in which to record all deposits. See illustration No. 14.

Mr. Adams has advised you that he has deposited all cash on hand.

> Make the necessary entry in your cash book. This is done by totalling with a hard lead pencil the cash received to date, and entering the amount in the deposit column on the blue line immediately to the right of the last check received. It is not necessary to make any further memorandum in regard to a deposit. The fact that this amount is entered in the deposit column is sufficient to show that on the date on which the check of $60 was received from King & Son, this deposit was made. See illustration No. 14.

§ **33. A Check.** When we now speak of cash, we mean cash in our possession and cash in the bank. Cash in our possession is usually termed "cash in safe" or "cash on hand." When a firm follows this plan of keeping all the cash in the bank, it can readily be understood that when it is necessary to pay a bill a sufficient amount must be withdrawn from the bank for that purpose, or an order must be made on the bank to pay the bill out of the firm's funds. Such an order is called a *Check.* For the present, therefore, you may define a check as a written order on a bank to pay money in its keeping belonging to the maker of the check. This is not the legal definition for a check. You will find the legal definition on page 141 in the chapter which relates to Bills of Exchange. Since it is the usual practice to keep a special column on the Received Side of the cash book to be used as a space to show the money deposited, it is *also* necessary to set aside a column on the opposite side of the cash book to show the amounts withdrawn from the bank by reason of checks issued. These two columns do not represent cash received or paid but are used solely to show dealings with the bank. The difference between the total cash deposited and checks issued should show the cash in the bank.

§ **34. Balancing the Cash Book.** Feb. 10, 19 . Whenever it is necessary or desirous to post the amount of the cash to a cash account in the ledger, the cash book must be "*Balanced.*" This is done by adding the received and paid columns, deducting the payments from the receipts, and entering the balance or cash on hand in the payments column so as to make the two footings equal. See illustrations Nos. 14 and 15. In business this may be done *daily*, *weekly*, or *monthly*.

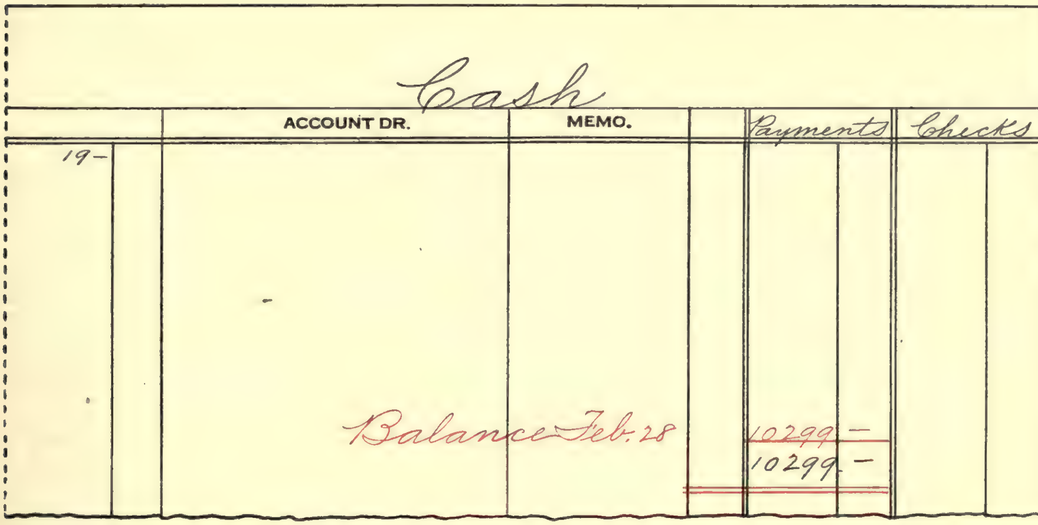


Illustration No. 15 The Cash Book, Credit Side

Have the cash balance checked by the teacher before proceeding with your work.

Balance and rule the Cash Book.

§ 35. **Posting from Cash Book.** You have learned from your previous work that a record of your transactions with each customer is kept in the Sales Ledger. This record is called his *Account.* Since cash payments made by customers affect this record, it is evident that the amount of cash received from a customer must be posted to his account in the Sales Ledger.

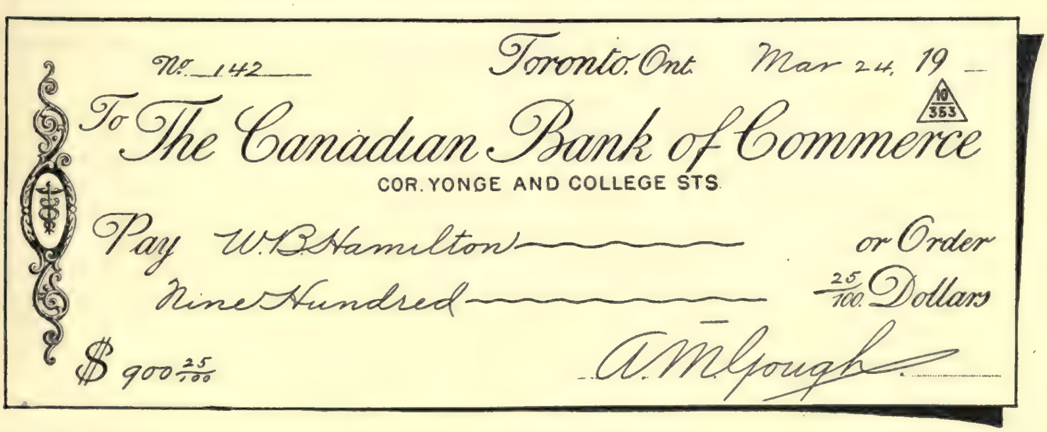
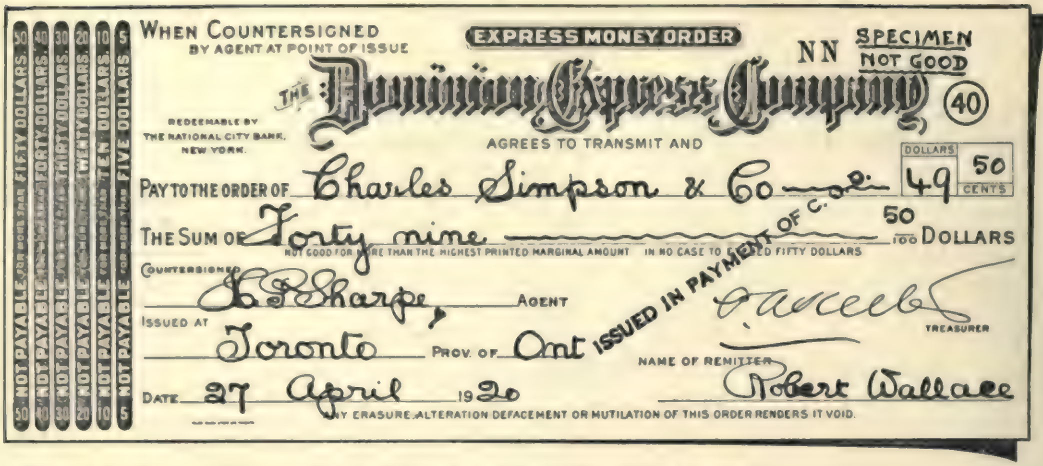


Illustration No. 16 Check (when received, entered as Cash)

When a sale was made on credit, the customer was charged or debited with the amount of sale because his account *received* the benefit of the transaction. When he makes a payment he must be credited with the payment made, because his account *gives* the benefit.



WHEN COUNTERSIGNED BY AGENT AT POINT OF ISSUE

EXPRESS MONEY ORDER

NN SPECIMEN NOT GOOD

THE Dominion Express Company (40)

REDEEMABLE BY THE NATIONAL CITY BANK, NEW YORK.

AGREES TO TRANSMIT AND

PAY TO THE ORDER OF Charles Simpson & Co. — DOLLARS 49 50 CENTS

THE SUM OF Forty nine — 50/100 DOLLARS

NOT GOOD FOR MORE THAN THE HIGHEST PRINTED MARGINAL AMOUNT IN NO CASE TO EXCEED FIFTY DOLLARS

ISSUED IN PAYMENT OF C.O.D.

COUNTERSIGNED H. F. Sharpe, AGENT

TREASURER

ISSUED AT Toronto PROV. OF Ont

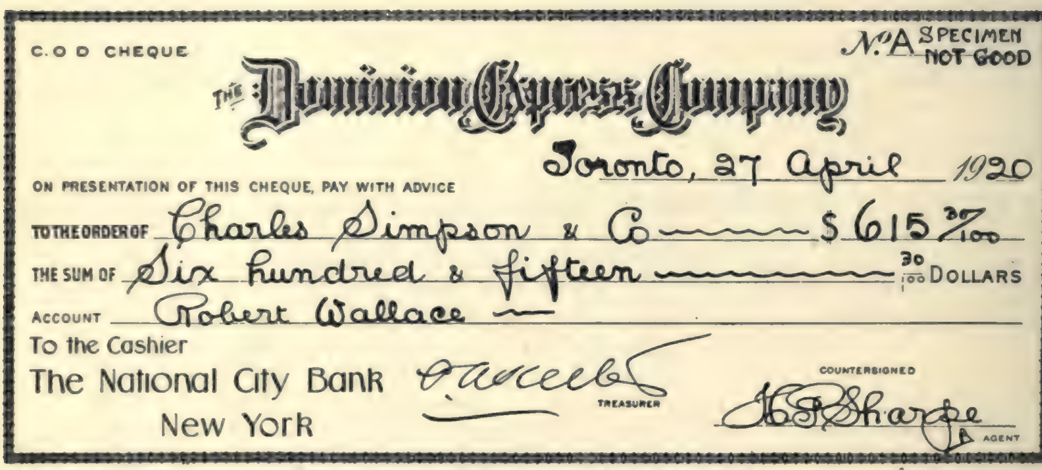
NAME OF REMITTER Robert Wallace

DATE 27 April 1920

ANY ERASURE, ALTERATION DEFACEMENT OR MUTILATION OF THIS ORDER RENDERS IT VOID.

NOT PAYABLE FOR MORE THAN FIFTY DOLLARS. NOT PAYABLE FORTY DOLLARS. NOT PAYABLE THIRTY DOLLARS. NOT PAYABLE TWENTY DOLLARS. NOT PAYABLE TEN DOLLARS. NOT PAYABLE FIVE DOLLARS.

Illustration No. 17 Express Money Order (when received, entered as Cash)



C.O.D CHEQUE

No. A SPECIMEN NOT GOOD

THE Dominion Express Company

Toronto, 27 April 1920

ON PRESENTATION OF THIS CHEQUE, PAY WITH ADVICE

TO THE ORDER OF Charles Simpson & Co — $615 30/100

THE SUM OF Six hundred & fifteen — 30/100 DOLLARS

ACCOUNT Robert Wallace

To the Cashier

The National City Bank

New York

TREASURER

COUNTERSIGNED H. F. Sharpe AGENT

Illustration No. 18 Express C.O.D. Check (when received, entered as Cash)

Post the items from the Cash Book to the Ledger. The first item is an investment by the owner and is not a payment by a customer. Select from your supplies a ledger sheet ruled similar to that shown in illustration No. 20. Open a Ledger account for George Adams "Capital." See illustration No. 20. Place the sheet in your general ledger section. Post the $10,000 to the Credit side of Capital Account, entering the date as usual, and then check the item in the folio column of the cash book thus ✔. See illustration. In the ledger account, in the memo. column, place the memo. "C2" which means Cash Book, page 2. In the same way post all the other items in the cash book to the credit of the proper customers' accounts which are already opened in the Sales Ledger, checking each as instructed. For the present do not enter the balances in the balance column.

Posting Footings of Cash Book. By posting these items you have thrown your ledger out of balance because they have all been entered in their respective accounts on the *Credit* side. You may now complete the posting and put your ledger in balance once more by proceeding as follows: Select from your stationery a General Ledger Sheet (one similar to illustration No. 27). Write on

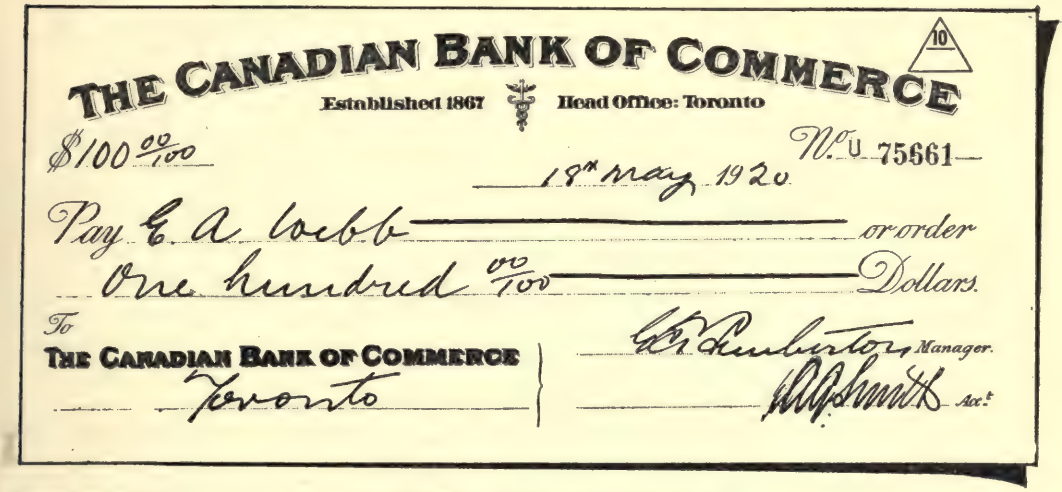
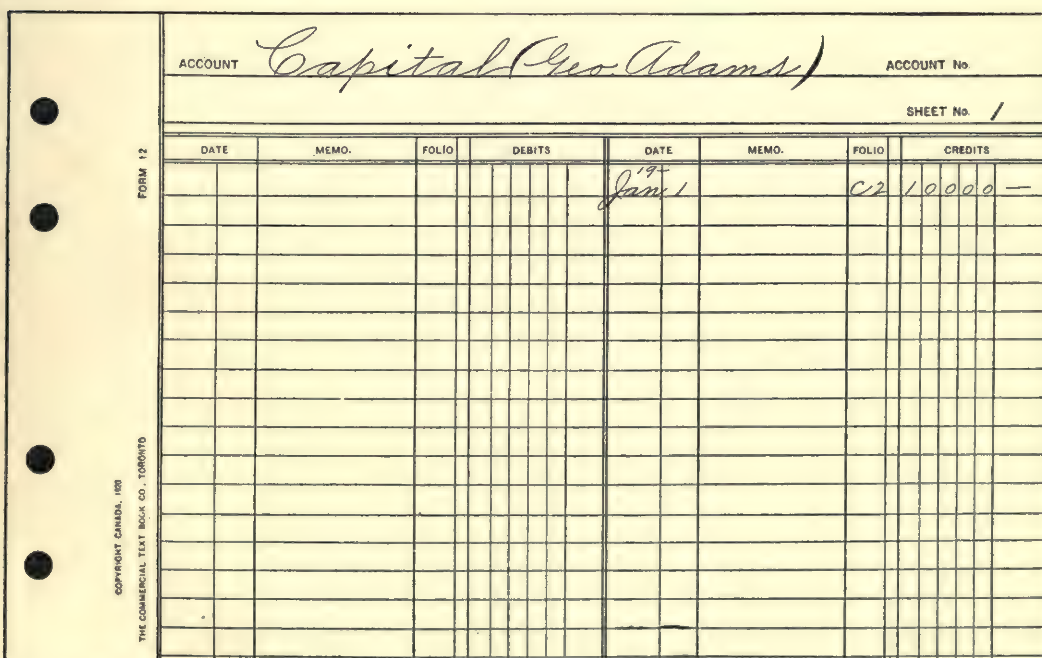

THE CANADIAN BANK OF COMMERCE
Established 1867 Head Office: Toronto
10
$100 00/100
No. U 75661
18th May 1920
Pay E. A. Webb or order
One hundred 00/100 Dollars.
To
THE CANADIAN BANK OF COMMERCE
Toronto
Manager.
Acct.

Illustration No. 19 Bank Draft (when received, entered as Cash)

it the heading "Cash". Place it in your General Ledger in proper alphabetical order. Post the total cash as shown by the footing of the Cash Book (received side) to the *debit* of this cash account just opened (see illustration No. 27, first item on debit side). Check the items posted.

NOTE.—Upon once more examining your Ledger you will find that the debit and credit entries have been made according to the same rule established in the preceding Section. Cash Account having *received* the benefit has been *debited*. The Personal Accounts Receivable having individually *given* the benefit have been *credited*.


FORM 12

ACCOUNT Capital (Geo. Adams) ACCOUNT No.

SHEET No. 1

DATE	MEMO.	FOLIO	DEBITS	DATE	MEMO.	FOLIO	CREDITS
				19— Jan. 1		C2	10000 —

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Illustration No. 20
The Standard or Centre Ruled Ledger Sheet, illustrating the Capital Account in the General Ledger

Add all the accounts in the ledger. Place the total of each account immediately below the last item using a sharp hard lead pencil. Make your figures very small. See illustration No. 118.

Feb. 28. Make a Trial Balance using totals *not* balances of accounts. Every total in every account in your ledger must be included in your trial balance.

EXAMINATION, SECTION 3.

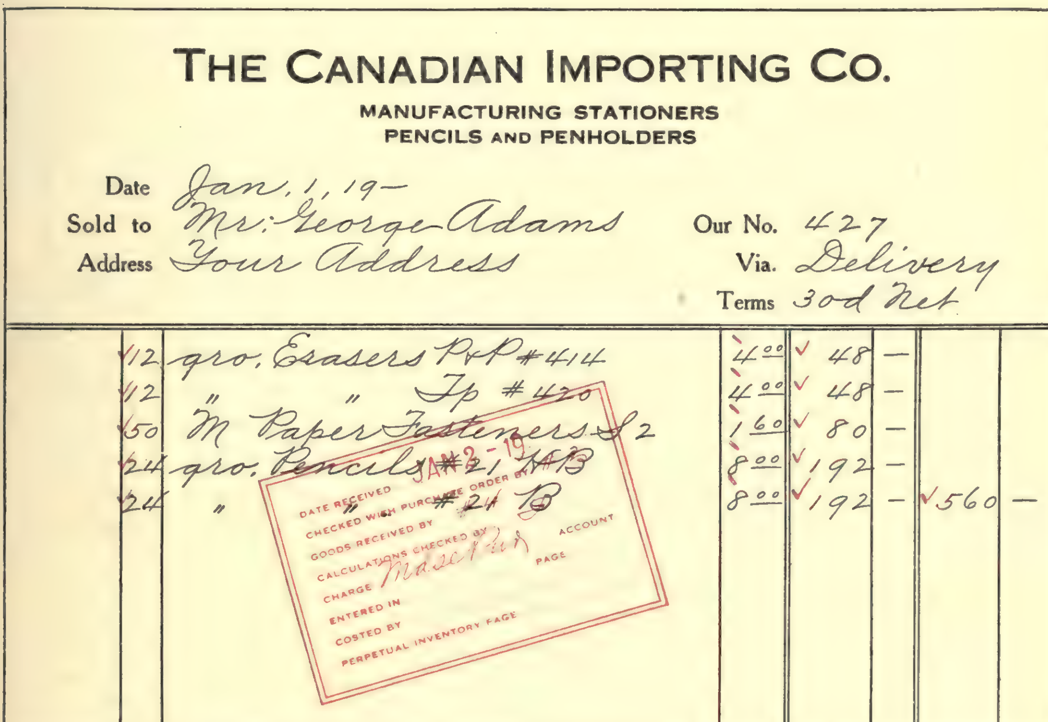
1. Name a number of business papers that are recorded as cash.
2. What is the medium usually used in paying an account?
3. When our customers make payment of debts due us, in what book would we first make the record?
4. On which side (Dr. or Cr.) of the customers' account in the Ledger would the payment be recorded?
5. What is a check?
6. What is usually done with cash received each day?
7. To what account in the Ledger may the total cash received be posted?
8. To what side of the Cash Account (Dr. or Cr.) should the cash received be posted if a cash account be opened in the Ledger?
9. Explain why the Ledger will be in balance after the Cash Received has been correctly posted.
10. What is a Cash Book?
11. On which side of the Cash Book are receipts and payments respectively entered?

Section 4

TRANSACTIONS FOR MONTH OF MARCH.

PURCHASES.

§ 36. **In every well conducted office** a record of every order given to another firm is always kept. This record is essential in order to determine the goods to be ordered subsequently, and to check up the invoices when the goods arrive so as to see that the order has been properly filled. These orders are usually known as *Purchase Orders* to distinguish them from Customers' Orders. The customer's order is one received by you from a customer for goods to be shipped by you (sale), and the purchase order is one given by you to another firm for goods which you wish to purchase (purchase). These purchase orders are filed alphabetically or numerically or in any other way desired, depending on the nature of the business.



THE CANADIAN IMPORTING CO.

MANUFACTURING STATIONERS
PENCILS AND PENHOLDERS

Date Jan. 1, 19—
Sold to Mr. George Adams
Address Your Address

Our No. 427
Via. Delivery
Terms 30d Net

12	gro. Erasers P&P #414	4.00	48	—		
12	" " Tp #420	4.00	48	—		
50	M Paper Fasteners #2	1.60	80	—		
24	gro. Pencils #21 HB	8.00	192	—		
24	" #21 B	8.00	192	—	560	—

Illustration No. 21 Incoming Invoice, properly checked for entry in Purchase Book

When the invoice for the goods ordered arrives, it should be compared with the purchase order to verify prices and quantities. The invoice is then kept on an "Incoming Goods" file until the goods arrive. When the goods arrive, the invoice is taken from the Incoming Goods file, the goods are counted, the invoice checked, and, if correct, O.K.'d by the receiving clerk. The invoice is then forwarded to the bookkeeper who checks the calculations, finds the laid down cost of the goods, and makes the proper entry in his Purchase Book.

§ 37. **The Record of Goods Purchased** is usually kept in a *Purchase Book*, sometimes called an "Invoice Book," or "Purchase Journal." It is not customary to enter the details of each invoice in this book. The invoice itself is kept on file for reference.

It is evident that goods cannot be sold unless you have a stock. In your work you have made sales, before you purchased goods. The proprietor purchased a stock on Jan. 1st, but as you might have become confused if you had been asked to make an entry for those goods at that time, the invoice has been set aside and now you are asked to enter it in your books.

The *Purchase Order* for these goods was made out by Mr. Adams. The goods were received and the invoice properly checked by the receiving clerk. The invoices are dated January because the goods were purchased by Mr. Adams at that time, but have been held so that you might make the records in the books.

Enter the following properly checked invoices in your Purchase Book. Enter headings in your Purchase Book according to illustration No. 22. *Be careful to enter in the Purchase Book the date of the Invoice not the date on which the entry is made.*

PURCHASE BOOK

ACCOUNTS CR.							ACCOUNTS DR.										
DATE OF INVOICE		ACCOUNT	TERMS	✓	AMOUNT OF INVOICE		MDSE. PUR. DR.		OFFICE SUPP. DR.		WAREH'SE SUPP. DR.		OTHER ACCOUNTS DR				
													ACCOUNT	✓	AMOUNT	
19- Jan.	1	Can. Imp. Co.	30d		560	—	560	—								
	1	Patterson & Co.	30d		390	—	390	—								
	1	Stafford Ink Co.	30d		48	—	48	—								
	1	Dom. Pencil Co.	30d		1950	—	1950	—								
	1	Comb. Text Book	30d		220	—	220	—								
	1	Lufkin Rule	30d		2000	—	2000	—								
							5168	—								

Illustration No. 22 The Purchase Journal

Incoming Invoices.

Canadian Importing Co., (your address) Jan. 1, 19 . Terms Net 30 days, via Delivery. 12 gro. Erasers P. & P. #414, $4.00—$48.00; 12 gro. Erasers Typewriter #420, $4.00—$48.00; 50M. Paper Fasteners S2, $1.60—$80.00; 24 gro. Pencils #21 HB. $8.00—$192.00; 24 gro. Pencils #21B. $8.00—$192.00. Total—$560.00.

Patterson & Co., Paper Rulers & Bookbinders, (your address) via Delivery, Jan. 1, 19 . 12 Cash Books #412, 500 pp., $3.00—$36.00; 12 Journals #412, 500 pp., $3.00—$36.00; 12 L. L. Binders #415, $8.00—$96.00; 25M. Ledger Sheets #415, $6.00—$150.00; 1 doz. L. L. Ledger Index 28's, Canvas Tabs, $24.00—$24.00; 12 Letter Books #296, 1,000 pp., $4.00—$48.00. Total—$390.00.

Stafford Ink Co., (your address) Jan. 1, 19 . Terms Net 30 days, via Delivery. 2 gro. W.W. Paste, $24.00—$48.00.

The Dominion Pencil Co., 29 St. Urbain St., Montreal, Que. Terms Net 30 days, via C.P.R. Prepaid. Jan. 1, 19 . 100 gro. Penholders, "Fingerfit," $10.00—$1,000.00; 100 gro. Penholders, "Velvet," $8.00—$800.00; 50 lbs. Rubber Bands #85, $3.00—$150.00. Total—$1,950.00.

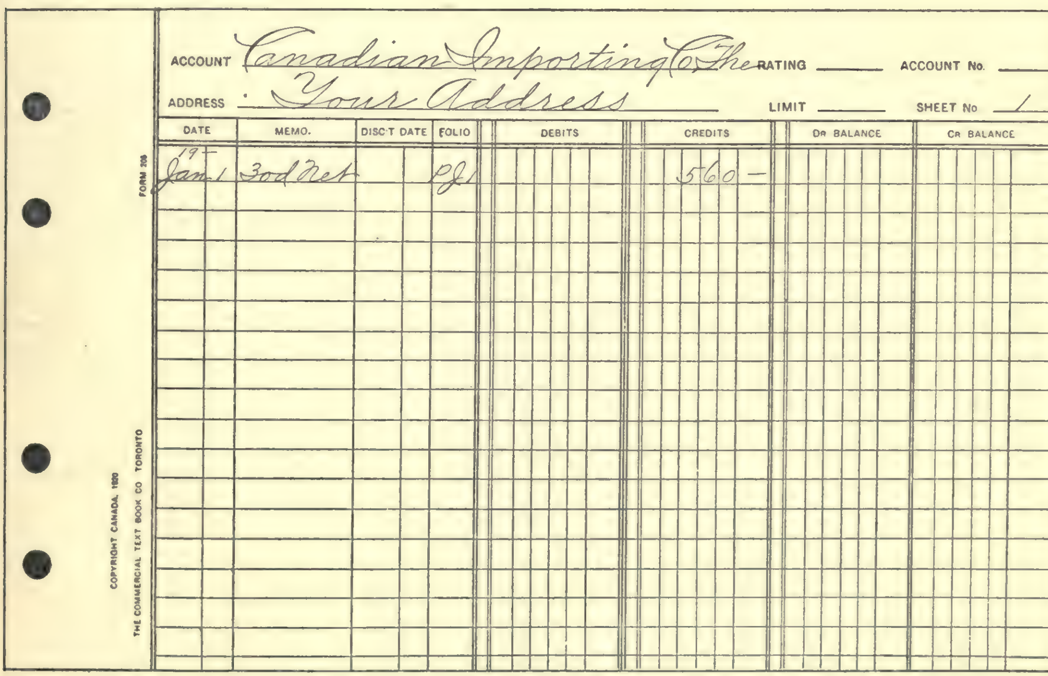
The Commercial Text Book Co., Toronto, Canada, Jan. 1, 19 . Terms Net 30 days, via Dom. Express Prepaid. 50 gro. Pens, Sprott's # 1, $1.10—$55.00; 50 gro. Pens, Sprott's # 2, $1.10—$55.00; 50 gro. Pens, Sprott's # 3, $1.10—$55.00; 50 gro. Pens, Sprott's # 10, $1.10—$55.00. Total—$220.00.

Lufkin Rule Co., 147 James St., Hamilton, Ont. Jan. 1, 19 . Terms Net 30 days, via Freight Prepaid. 50 gro. Rulers # 136, 12″, $16.00—$800.00; 50 gro. Rulers # 137, 15″, $24.00—$1,200.00. Total—$2,000.00.

Have the entries in your Purchase Book checked by your teacher. Foot and rule the Purchase Book (see illustration No. 22).

POSTING FROM THE PURCHASE BOOK.

§ 38. **You have Kept a Record of your Sales** in that portion of your Ledger called "Sales Ledger." The accounts in that portion of your Ledger are *Personal Accounts Receivable.* You now find it necessary to keep a record of amounts you owe on account of purchases from others. These persons and firms from whom you have bought goods on credit must be credited for the amounts you owe them. This is done by opening accounts for them, placing the account sheets alphabetically arranged in the "Purchase Ledger" section of your ledger and posting to these accounts from your Purchase Book, *crediting* each person or firm with the amount of each invoice. These are *Personal Accounts Payable.* When this is done you have put your Ledger out of balance by the amount entered from your Purchase Book. To put your Ledger into balance and to keep a record of the cost of goods bought you must post the footing of the Purchase Book to the *debit side* of a new account which will be opened in your General Ledger called "Merchandise Purchases."



ACCOUNT Canadian Importing Co. The RATING ____ ACCOUNT No. ____

ADDRESS Your Address LIMIT ____ SHEET No 1

DATE		MEMO.	DISC'T DATE	FOLIO	DEBITS	CREDITS	DR BALANCE	CR BALANCE
19—								
Jan	1	30 d Net		P.J 1		560 —		

FORM 208

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THE COMMERCIAL TEXT BOOK CO TORONTO

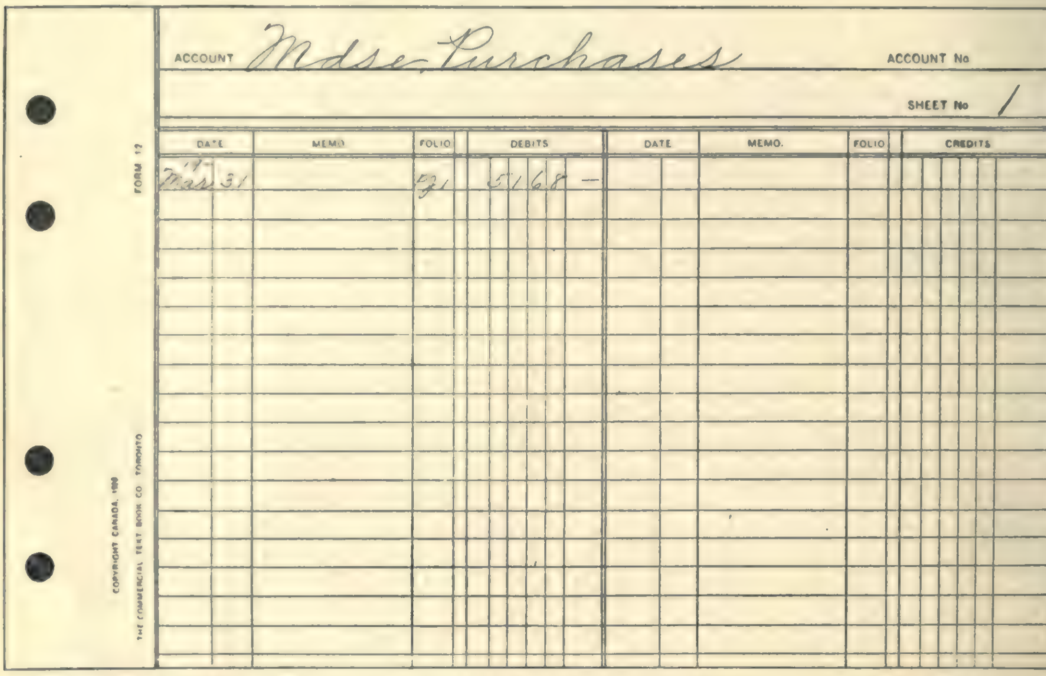
Illustration No. 23 **A sheet from the Purchase Ledger illustrating a Personal Account Payable**

Mar. 31. Using the ledger sheets which have debit and credit balance columns (bank ledger ruling), open accounts for each creditor arranging them alphabetically in your loose leaf binder under the tab "*Purchase Ledger.*" Post each purchase from the Purchase Book to the credit of each personal account in the Purchase Ledger, entering in the memo. column of each account the terms of each purchase.

As each amount is posted check it in the Purchase Book with a check mark and in the Purchase Ledger with the check "P.J.1", meaning Purchase Journal page 1. See illustration No. 23.

Using a Standard Ledger Sheet open an account for Merchandise Purchases. Place it in your General Ledger in alphabetical order. Post the footing of the Purchase Book to the Debit side of "Merchandise Purchases" account, checking the item in the Purchase Journal and in the Ledger. See illustration No. 24.

You have now *credited* each creditor with purchases from him on account and you have *debited* the Merchandise Purchase Account for the total of these purchases. The sum of the items posted to the credit side of your ledger is the sum posted to the debit side. You have thus maintained the balance of your ledger.



ACCOUNT Mdse Purchases ACCOUNT No

SHEET No 1

DATE	MEMO	FOLIO	DEBITS	DATE	MEMO.	FOLIO	CREDITS
'19 Mar 31		J1	5168 —				

FORM 12

THE COMMERCIAL TEXT BOOK CO. TORONTO COPYRIGHT CANADA, 1919

Illustration No. 24 **A sheet from the General Ledger, illustrating Purchases Account**

Mar. 31. Make a Trial Balance. Before entering the individual personal accounts receivable in the trial balance, write the heading "Accounts Receivable." Before entering the individual personal accounts payable, write the heading "Accounts Payable."

In business Trial Balances may be taken daily, weekly, or monthly according to the wishes of the proprietors.

§ 39. **Creditors** are persons whom we owe.

§ 40. **A Trial Balance Taken Using Balances of Accounts Instead of Totals.** You will notice that in your ledger you have a balance column which you have not yet used. Now that you fully understand the principles underlying double entry bookkeeping, you can appreciate the fact that a trial balance may be made by taking the balance instead of the footings of each account.

Make another trial balance according to the following instructions: Turning first to your Sales Ledger, balance each account. The first account is that

Geo. Adams
Trial Balance Mar. 31.

	Debits	Credits
Capital (Geo. Adams)		10000 —
Mdse. Purchases		
" Sales		
Cash		
Accounts Payable		
" Receivable		
Analysis of Accounts Receivable		
Andrews C. R.		
Bell & Co. Henry		
Wright W. K.		
Analysis of Accounts Payable		
Canadian Importing Co.		
Commercial Text Book Co.		
Patterson & Co.		
Stafford Ink Co.		

Illustration No. 25 **Trial Balance, using Balances of each Account**

of C. R. Andrews. You will note that the total debit is $385.50. This sum represents the total sales on account to C. R. Andrews or his total indebtedness to your firm if no payments had been made, but you will find by referring to the credit side of his account that he has paid $100.00. He, therefore, owes the difference, $285.50. This is the *balance* of his account. Enter it in the debit balance column directly opposite the last sale. You call this a "Debit Balance" because the debit side of the account is larger than the credit. If the

credit side were larger than the debit, we would call it a "Credit Balance." Now turn to each of the other accounts in your sales ledger and enter the balance of each in the proper balance column. Do not rule the accounts in any way. Next, take the accounts of your Purchase Ledger. The first account is that of the Canadian Importing Co. from whom your firm bought on account goods valued at $560.00. As you have not paid anything on account, you still owe this firm $560.00. This is an entirely different kind of balance to that shown in your Sales Ledger. Those balances in your Sales Ledger show the amounts owing to your firm, "Debit Balances" of Accounts Receivable, but in the case of the Canadian Importing Co.'s account the larger total is on the "Credit Side." This is a Credit Balance and shows an amount you owe. To distinguish it from a debit balance, it should be entered in the balance column in red ink if the ledger ruling provides only one balance column, but if the ledger account provides both a debit and credit balance column, then the credit balance will be entered with black ink in the Credit Balance Column. Balance all the other accounts in the Purchase Ledger in the same manner. Your General Ledger has the standard ruling, therefore a balance cannot be shown except by closing the account. See illustration No. 6. As each of the General Ledger accounts has amounts on one side only, it will not be necessary at this stage in your work to "close" or "balance" any of these accounts.

Make another Trial Balance of your ledger, taking in the Balances *not the Footings.* See illustration No. 25. It is not usual in making a Trial Balance to show the Accounts Payable and the Accounts Receivable in detail, but to enter them each in the Trial Balance as a definite sum. The details of the Accounts Receivable and the Accounts Payable should be entered below the Trial Balance or on a separate sheet. In making this and all succeeding Trial Balances, show the total Accounts Receivable and total Accounts Payable. Show the analysis of these totals below, writing suitable headings for each. This is the usual way of taking a Trial Balance. You have been asked to make the two Trial Balances merely to show you that a trial balance may be secured either by taking the footings or the individual balances of each account. Compare the two.

§ **41. Ledger Balances.** The balance of a ledger account is the sum by which the entries on one side of an account exceed the entries on the other. If the total of the debit money column is greater than the total of the credit money column, there is said to be a "*Debit Balance.*" A "*Credit Balance*" is an excess of total credits over total debits. When the total debits is equal to the total credits, the account is said to "*balance*" and should be ruled below the last item either with red or black ink according to the method decided upon by your teacher. See illustration No. 124.

EXAMINATION, SECTION 4.

1. What are "Purchase Orders?"
2. What is the name of the business paper which is received when goods have been purchased?
3. What records are made on incoming invoices before they finally reach the bookkeeper for entry in his book?
4. To what account and on what side of the account is the record of goods purchased for resale posted?
5. Explain why the Ledger should be in balance after the posting has been properly done from the Purchase Journal at the end of the month.
6. Explain the term "Creditor."
7. What is meant by the "balance" of a Ledger Account?
8. Explain the terms (a) Debit Balance; (b) Credit Balance.
9. When is an account said to be "in balance?"
10. In what book are incoming invoices recorded?
11. How is the Purchase Book posted?

Section 5

TRANSACTIONS FOR MONTH OF APRIL.

CASH RECEIPTS.

April 1. Cash Receipts: C. R. Andrews, check, $50.00; Henry Bell & Co., check, $148.20; A. R. King & Son, check, $95.40; J. D. Russell & Co., check, $93.00; W. K. Wright, check, $80.40. Mr. Adams has deposited all cash on hand.

> The above checks are payable at par in your town or city. Make the proper entries in your Cash Book.

PAYMENTS.

§ **42.** As the Cash Book is the book in which you should record not only receipts but also payments, it will be necessary for you to enter on the payment side a record of all checks issued. This record in business would appear first on the *stub of the check book.* A check is issued to overcome the necessity of withdrawing money from the bank to settle a debt. By reference to the Purchase Ledger, you may note that you owe amounts to a number of firms. These firms are now credited with the amounts you owe them. When these firms are paid, either wholly or in part, it is evident that the amount must be entered in the personal account affected on the debit side. To provide for making such an entry, a debit column is set aside in your Cash Book in which, when recording cash paid, it will be necessary to debit the person or firm to whom payment is made.

April 10. Mr. Adams has made the following payments: Canadian Importing Co., check # 1, $560.00; The Commercial Text Book Co., check # 2, $220.00; The Dominion Pencil Co., check # 3, $1,000.00; Lufkin Rule Co., check # 4, $500.00; Patterson & Co., check # 5, $200.00; Stafford Ink Co., check # 6, $48.00.

> Enter these payments on the "Paid" side of the Cash Book. The record should show the date of entry (year at the top of the first entry on the page), the name of the person or firm debited, explanation, No. of check, amount in money column, and another memo. of the amount in the "checks" column.

BALANCING THE CASH BOOK.

§ **43. In business the Cash Book is balanced daily** and is ruled whenever it is necessary to post the results to the cash account in the Ledger, if such an account is kept. This is usually done at the end of the month when the monthly trial balance is taken.

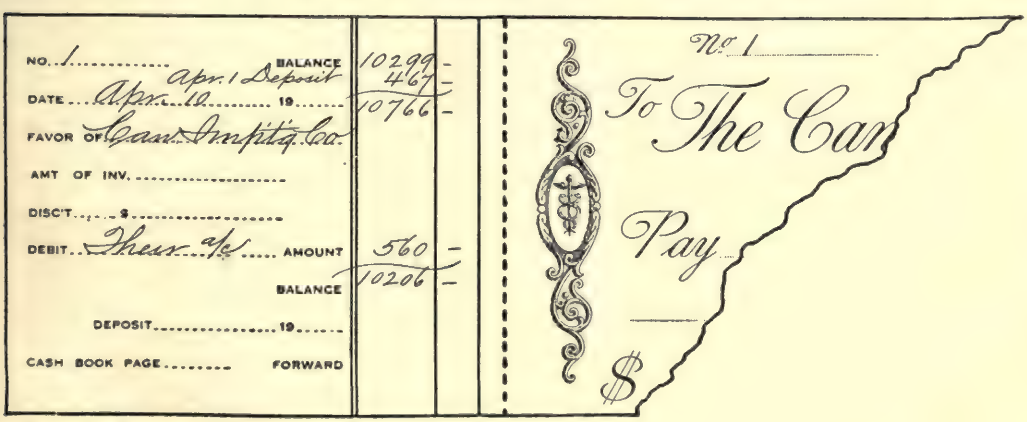


Illustration No. 26 Stub of Check Book

Before closing your Cash Book, have the items checked by your teacher. If your entries are correct, balance the Cash Book according to the illustrations on pages 24 and 25. The cash balance for the current month should be shown in red ink on the smaller side. When the balance from the previous month is brought down below the footings it should be in black ink.

POSTING FROM THE CASH BOOK.

Post the items on the "Received" side of the Cash Book in the Sales Ledger to the credit of the persons or firms from whom the cash was received. As each item is posted, check it as previously directed. Also enter the check mark necessary in the Ledger to show the book and page from which the item was taken. If the payment balances the account, rule it neatly with red ink.

Next post to the Cash Account in the General Ledger, the total receipts for the period for which the posting is being done, entering the amount on the Debit side, thus maintaining the balance of your Ledger. Check the posting carefully.

Turning next to the "Paid" side of your Cash Book, you will now post to the Purchase Ledger the Payments, debiting each person or firm in the Purchase Ledger with the amount paid, checking as previously directed, and ruling each account which balances.

The total payments should then be posted to the Credit side of the Cash Account in the General Ledger, thus again maintaining the balance of the Ledger according to the principle of double entry, which requires amounts appearing on the Debit side of a Ledger to also appear either in items or totals on the Credit side.

Cash Received

Date		Account Cr.	Memo.	F	Receipts		Deposits	
19—						F	10299	—
Apr.	1	Andrews C.R.		✓	50	—		
"	"	Bell & Co. Henry		✓	148	20		
"	"	King & Son A.R.		✓	95	40		
"	"	Russell & Co. J.D.		✓	93	—		
"	"	Wright W.K.		✓	80	40	467	—
					467	—	10766	—
		Total Receipts in April			467	—		
		Bal. forward from May			10299	—		
					10766	—		

Illustratiot No. 26A

§ 44. **The Cash Account** in the Ledger shows on the Debit side all cash received from the date it was opened and on the Credit side all cash paid from the same date. The difference or balance must, therefore, be the total cash on hand including Cash in Bank and Cash in Safe, if any. The cash balance as shown in the Cash Book will show exactly the same result, but only after the balance of the previous period has been included. Bookkeepers usually follow the plan of adding this balance in the Cash Book at the end of the month instead of at the beginning as is frequently suggested in textbooks on this point. The advantages of adding the previous balance at the end of the month is, that during the month this balance in that case does not appear in any of the totals and at the end of the month when the totals are being posted, these totals do *not* include the previous month's cash balance which is already in the Ledger and which if added in the totals and posted would appear twice in the Ledger and so throw it out of balance. It is, therefore, advisable *not* to enter the cash balance for the previous month as the first entry in the Cash Book for the succeeding month, but to simply ignore the cash balance of the previous month until balancing the Cash Book at the end of the month, when it then may be added after the totals have been posted. The Bank Balance, however, may be entered in the Deposits column at the beginning of the month.

NOTE.—The cash balance is sometimes carried into the Trial Balance directly from the Cash Book without opening a cash account in the Ledger, but such a plan is not recommended at this stage in the student's work.

Before making a Trial Balance rule any personal account which is in balance. *Use red ink for all ruling.* Carry the balances of each personal account into the proper "balance column" at the end of every period for which a Trial Balance is made. Balance the "Cash Account" in the General Ledger ruling the account and showing the balance in red ink. Bring the balance down below the rulings in black ink. Make a Trial Balance using the balances of each Personal Account. Group the Accounts Receivable and Accounts Payable as instructed in the previous Trial Balance. Show the details below the Trial Balance. In future follow this plan in making all Trial Balances.

Cash Paid

Date		Account Dr.	Memo.	F	Payments		Checks	
19—								
Apr.	10	Canadian Imptg. Co.	#1	✓	560	—	560	—
"	"	Com'l Text Book Co.	2	✓	220	—	220	—
"	"	Dom. Pencil Co.	3	✓	1000	—	1000	—
"	"	Lufkin Rule Co.	4	✓	500	—	500	—
"	"	Patterson & Co.	5	✓	200	—	200	—
"	"	Stafford Ink Co.	6	✓	48	—	48	—
					2528	—	2528	—
		Total Payments in April		✓	2528	—		
		Cash Balance Apr. 30			8238	—		
					10766	—		

Illustration No. 26B

ACCOUNT Cash ACCOUNT No

SHEET No 1

FORM 12

DATE		MEMO	FOLIO	DEBITS		DATE		MEMO.	FOLIO	CREDITS	
19 Feb.	28		CB2	10299	—	19 Apr.	30		CB3	2528	—
Apr.	30		CB2	467	—	"	30	Balance		8238	—
				10766	—					10766	—
Apr.	30	Balance		8238	—						

Illustration No. 27 General Ledger Sheet, illustrating Cash Account

ERRORS IN TRIAL BALANCE.

§ 45. If an error should occur in your work, it is quite possible that you may be "out" in your trial balance. In this event your best plan will be to first go over your additions and subtractions in each account. Next re-check the posting of the items and immediately after re-check the posting of the total which was made up of these items. Be sure that the total appears on the opposite side of the Ledger to that on which the items were posted. When re-checking use as a check mark a short straight line added to the "tail" of the previous check mark thus, first check ✓, second check ╲, which when added to the first produces this ✓̂. Check also all amounts transferred from the Ledger to your Trial Balance.

ANALYTICAL EXAMINATION OF THE LEDGER.

§ 46. Examine the condition of your Ledger and you will find that your system of bookkeeping reveals the following results:—

Your Ledger is divided in three sections: Sales Section; Purchase Section; General Section.

Each section should not balance, but all three taken together should balance.

Entries have been made in the various accounts according to the rule that the account *receiving* the *benefit shall* be *debited* and the account *yielding* the benefit shall be credited. This has resulted in the system known as "Double Entry," and according to this system every debit must have a corresponding credit, and if any number of transactions have been thus entered, it follows that the sum of the debits will exactly equal the sum of the credits. The diagrams shown below illustrate the condition of the Ledger at the present time and show how this rule of receiving and giving benefit may be applied to every account.

LEDGER.

¶ 1. Sales Section.

Personal Accounts Receivable.

Debited with sales on account.	Credited with payment to us.
Benefit Received.	Benefit Yielded or Given.

¶ 2. Purchase Section.

Personal Accounts Payable.

Debited with Payments to them.	Credited with Purchase from them on account.
Benefit Received.	Benefit Yielded or Given.

¶ 3. General Section.

Capital Account (George Adams).

Credited with Investments.
Benefit Yielded.

Mdse. Sales Account.

Credited with all sales of mdse.
Benefit Yielded or Produced.

Mdse. Purchases Account.

Debited with all mdse. purchased.
Benefit Received by this account or Cost.

Cash Account.

Debited with all cash received.	Credited with all cash paid.
Benefit Received by this Account—(Received).	Benefit Yielded or Given (Paid).

ANOTHER DIAGRAM SHOWING THE CONDITION OF THE LEDGER

		Trial Balance Dr.	Trial Balance Cr.
LEDGER	SALES SECTION (Sales Ledger)		
	1. Personal Accounts Receivable		
	a. Debited with Sales on Account	✓	
	b. Credited with payments made to us		✓^
	PURCHASE SECTION (Purchase Ledger)		
	1. Personal Accounts Payable		
	a. Debited with payments made to them	✓^^	
	b. Credited with purchases from them on account		✓^^^
	GENERAL SECTION (General Ledger)		
	1. Capital Account (George Adams)		
	a. Credited with total wealth or investment		×
	2. Merchandise Sales Account		
	a. Credited with sales of mdse.		✓
	3. Merchandise Purchases Account		
	a. Debited with mdse. purchased	✓^^^	
	4. Cash Account		
	a. Debited with cash received	✓^ ×	
	b. Credited with cash paid		✓^^
		=	=

Illustration No. 28

The corresponding check marks show where the records of transactions are entered in both the Dr. and Cr. sides of the Ledger. Every Debit has a corresponding Credit.

§ 47.

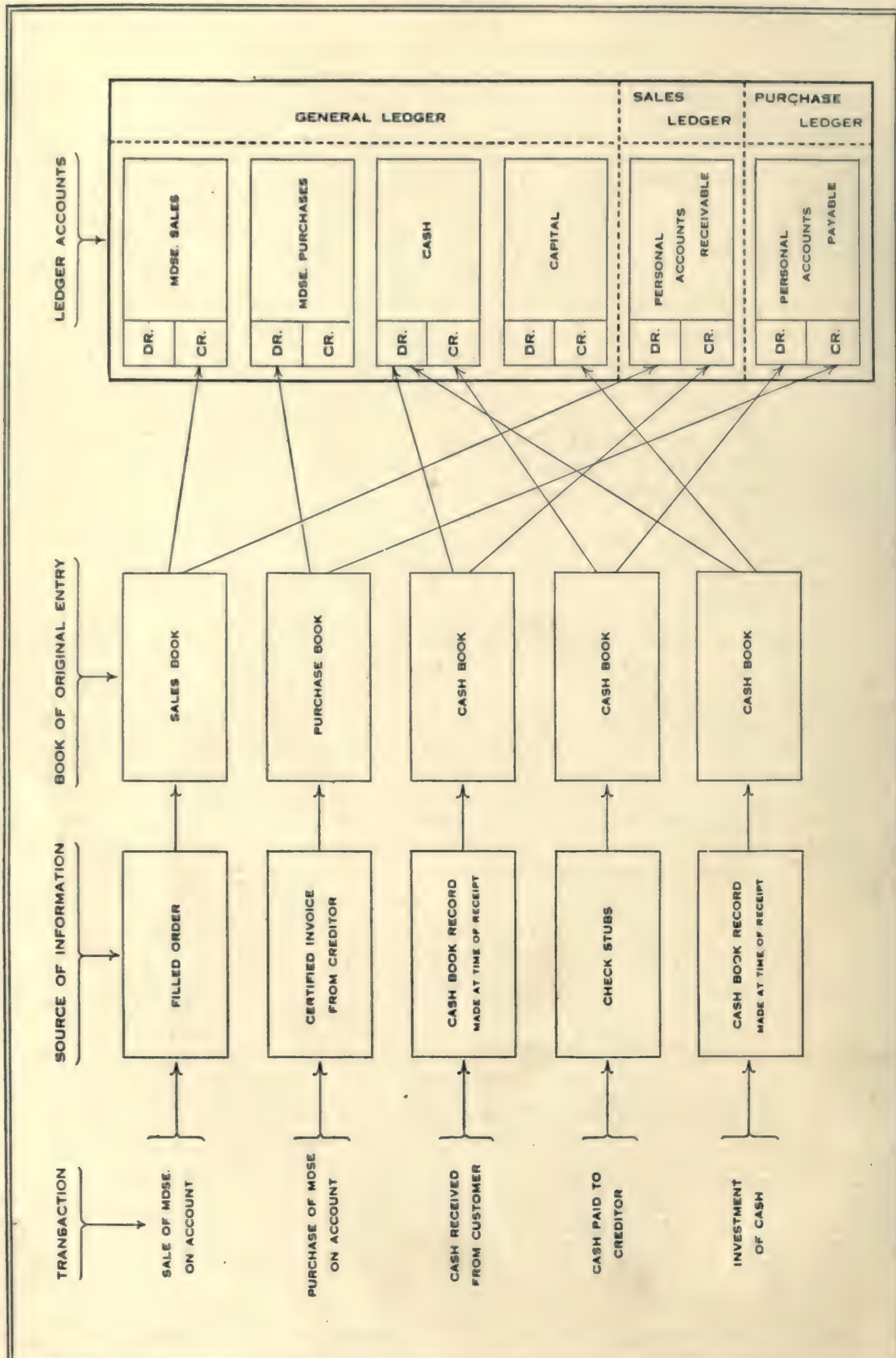


Illustration No. 29

Section 6

SUPPLEMENTARY EXERCISES IN FINANCIAL STATEMENTS.

These exercises are not intended to form part of the business of the office in which you are engaged as bookkeeper, but are separate and distinct from that work. They are not intended to affect your books in any way and must not be entered in any book except your Financial Statement Blank.

FINANCIAL STATEMENTS.

§ **49. The ultimate object of Bookkeeping** is to obtain at the end of a stated period a summary showing the results of all the business transactions during that period, in other words to find to what extent the wealth of the trader has been increased or decreased and to show exactly in what form that wealth exists. This is done by means of two statements.

§ **50. The First Statement** is a record of all the results which tend to increase or decrease his wealth and is generally called "*Trading & Profit & Loss,*" though frequently called "Statement of Loss and Gain" or "Statement of Profit and Loss." In a trading concern this statement is again divided into two parts, Section No. 1 being called *Trading* or *Income from sales,* and No. 2, *Profit and Loss* or *Deductions from Income.* Section No. 2 will be dealt with later in your work.

§ **51. The Second Statement,** which is a record of accounts which show the distribution of his wealth, is called *Balance Sheet* or *Statement of Assets & Liabilities.* Though there is in reality a slight difference between these two, which will be explained later, yet for elementary bookkeeping purposes the terms may be considered synonymous.

As previously stated, these two Statements are always prepared at the end of a financial year. In recent years, however, the demand of merchants for a more careful and regular analysis of business records has necessitated the compiling of these Statements quite frequently during the financial year.

§ **52. The Trading Statement.** Let us first turn our attention to that Financial Statement which shows the income from sales. (The Profit and Loss or Deductions from Income will be considered in Section 7.) In studying this Statement, let us consider a simple problem in arithmetic.

John Brown bought goods for $100.00. He sold a quantity of these goods for $75.00, and had at cost price $30.00's worth left on hand. Find his profit.

You would no doubt reason this way: If John Brown bought $100.00's worth of goods and still has on hand $30.00's worth, he must have sold the difference, or goods which cost him $70.00. For the goods which cost him $70.00 he received $75.00, therefore his profit was $5.00. Let us now show the results of his trading in the form of a little Statement:

JOHN BROWN'S TRADING STATEMENT.

Goods sold		75.00
" bought	100.00	
Deduct goods on hand	30.00	
Cost of goods sold	70.00	70.00
Total Trading Profit (gross profit)		5.00

Illustration No. 30

Now let us present this same problem to you using the terms or expressions used in your bookkeeping.

John Brown's Merchandise Purchases were $100.00. His Merchandise Sales were $75.00. By *taking stock*, that is counting and valuing at cost all goods in his store, he finds that the value of goods on hand or *Inventory* is $30.00. Find his profit.

Statement Form

JOHN BROWN'S TRADING STATEMENT (Income from Sales)

Merchandise Sales (Turnover)			75	00
" Purchases	100	00		
Less Merchandise Inventory	30	00		
Cost of Goods Sold	70	00	70	00
Gross Trading Profit			5	00

Illustration No. 31

The above Statement which, owing to its arrangement we shall style "Statement Form" is arranged in such a simple manner that anyone can readily understand it. The Trading Statement is not always displayed in this simple manner, but sometimes the figures are arranged with exactly the same result, according to the illustration below, which, to distinguish it from the preceding arrangement, we shall designate "Account Form." You should become familiar with each arrangement as they are both used in bookkeeping.

Account Form

JOHN BROWN'S TRADING STATEMENT (Income from Sales)

Merchandise Purchases	100	00	Merchandise Sales (Turnover	75	00
Gross Profit	5	00	" Inventory	30	00
	$105	00		$105	00

Illustration No. 32

Now apply the knowledge you have gained in preparing these two Trading Statements to the business of your employer and you are confronted with the following problem:

Mr. Adams, with whom you are engaged as bookkeeper, has been doing business since January 1st. On April 30th, when you made your last Trial Balance, Mr. Adams valued his merchandise at cost and found that his stock on hand (merchandise inventory) was worth $4,156.60. Suppose that he had not paid any salaries and had not been put to any expense whatever in connection with selling his goods, find the amount of his profit and show his Trading Statement in two forms.

Statement Form

George Adams
TRADING STATEMENT
For period ending April 30th, 19 .

Merchandise Sales (Turnover)		....
" Purchases	....	
Inventory	4156.60	
Cost of Goods Sold	....	....
Gross Trading Profit		$........

Illustration No. 33

Account
Form

George Adams
TRADING STATEMENT
For period ending April 30th, 19 .

Merchandise Purchases	....	Merchandise Sales (Turnover)	....
Gross Profit	....	Inventory Apr. 30th	....
	....		....

Illustration No. 34

By reference to your Trial Balance insert the proper figures in the above statements. Have the results certified by the teacher and copy them in your Financial Statement Book.

STATEMENT OF ASSETS AND LIABILITIES—(BALANCE SHEET).

§ 53. Let us now turn our attention to the second Financial Statement which the bookkeeper is required to make at the end of an accounting period, viz.:—the Balance Sheet or Statements of Assets & Liabilities. This Statement again may be displayed in two different ways, the former of which we shall again designate "Statement Form" and the latter "Account Form." In studying these Statements, let us once more consider a simple problem in arithmetic as follows:—

John Brown has an account owing to him of $500.00. He owes $200.00. He has cash in his pocket $100.00 and owns a horse valued at $250.00. This is all his wealth. Find how much he is worth.

You would no doubt reason this way: John Brown's total wealth (assets) are as follows: Account Receivable $500.00, Cash $100.00, Horse (Inventory) $250.00, Total $850.00. He owes (Liabilities) $200.00, therefore the difference, $650.00 is his Present Worth or Capital. Let us now show this problem in the form of a Statement.

Statement
Form

John Brown
STATEMENT OF ASSETS, LIABILITIES & CAPITAL
on , 19 .

ASSETS (owing to, or value to him)					
Accounts Receivable	500	00		
Cash on hand	100	00		
Horse (Inventory)	250	00	850	00
LIABILITIES (what he owes)				
Account Payable			200	00
Difference is Present Worth or Capital			650	00

Illustration No. 35

Account Form

John Brown
STATEMENT OF ASSETS, LIABILITIES & CAPITAL
on , 19 .

ASSETS			LIABILITIES & CAPITAL		
Accounts Receivable	500	00	Account Payable	200	00
Cash	100	00			
Inventory	250	00	Present Worth or Capital	650	00
	$850	00		$850	00

Illustration No. 36

From the information you have gained by making the above Statements from this simple problem in arithmetic you will be able to make the Statement of Mr. Adams' assets and liabilities, taking the figures of your last Trial Balance and the Merchandise Inventory $4,156.60 as your basis. Your statement should appear as follows:—

Statement Form

George Adams
STATEMENT OF ASSETS, LIABILITIES & CAPITAL
on April 30th, 19 .

--ooo000ooo--

ASSETS		
Accounts Receivable	....	
Cash	....	
Mdse. on hand (inventory)	4156 60	....
LIABILITIES		
Deduct Accounts Payable		....
Difference being Present Worth or Capital		....
Present Capital represented by:-		
Capital Jan. 1st 10,000		
Add Profit		
Capital Apr. 30th		

Illustration No. 37

Account Form

George Adams
STATEMENT OF ASSETS, LIABILITIES & CAPITAL
on April 30th, 19 .

ASSETS		LIABILITIES & CAPITAL	
Accounts Receivable	....	Accounts Payable	....
Cash	....	Present Worth or Capital:-	
Mdse. on hand (inventory)....		Capital Jan. 1	
		Profit	....
	....		....

Illustration No. 38

You will notice that the present worth is the capital invested $10,000, and the profit from trading $xxx.xx, total $xxx.xx.

By reference to your Trial Balance on April 30th insert the proper figures in the above statements. Have the result certified by your teacher and copy them in your Financial Statement Blank.

EXPLANATION OF TERMS.

§ 54. **An Inventory** is the name given to a list of goods on hand. For the purposes of bookkeeping these goods are listed at cost price, unless the price has dropped since the goods were purchased, in which event they are listed at the lowest market price or present value.

§ 55. **Physical Inventory** is the term applied to the merchandise inventory, the details and value of which are ascertained by actual count, measure or weight.

§ 56. **Perpetual or Book Inventory** is the term applied to the merchandise inventory, the details and value of which are ascertained by keeping records in a book, (on cards or otherwise) of all stock purchased and sold. This inventory is sometimes known as a "book" or "going" inventory.

§ 57. **Taking Stock** is the term applied to taking the physical inventory.

§ 58. **Assets** are possessions *or anything of value.*

§ 59. **Liabilities** are obligations, debts or claims admitted and not paid.

§ 60. **Present Worth, Net Worth or Capital** is the difference between the sum of total assets and total liabilities of any concern if the sum of the assets is larger than the sum of the liabilities. It is shown also at the end of an accounting period by adding the net profits to, or deducting the net loss from the capital invested. In the books of a Joint Stock Company the term "capital" has a slightly different meaning.

§ 61. **An Insolvent** is a person who is unable to pay his debts as they become due, or whose liabilities exceed his Available Assets.

§ 62. **A Balance Sheet** is a statement of assets and liabilities, showing the difference to be the capital or present worth, if the sum of the assets is larger than the sum of the liabilities. If the sum of the liabilities is larger than the sum of the assets, the difference is called "Net Insolvency."

§ 63. **A Creditor** is one to whom money is due.

§ 64. **A Debtor** is one who owes money to another.

§ 65. **Turnover** is the amount of money which has been traded upon by buying and selling during a certain period and in a trading concern is represented by the net sales for a given period.

§ 66. **Gross Profit.** For purposes of junior bookkeeping the gross profit of a trading concern is the profit resulting from the buying and selling of merchandise before the expenses of conducting the business have been deducted.

§ 67. **Capital** is the term used in referring to the wealth invested by a person in any business or undertaking. It is the excess or **surplus* of assets over liabilities.

§ 68. **An Accountant** is one who is skilled in recording, classifying and interpreting all financial facts concerning a business.

§ 69. **An Auditor** is a skilled accountant who makes a thorough examination of the records of bookkeepers and financial clerks, vouchers, securities, etc., with the object of detecting errors and fraud.

*In Company accounting, the term Surplus is usually applied to Undistributed Profits

CLASSIFICATION OF ACCOUNTS.

§ 70. Let us return again to the study of the accounts as shown in the diagram page 38. You may note that each of these accounts shows a certain result. Since Personal Accounts Receivable are debited with all sales made on account, that is sales made on credit, and are credited with payments made to us, it naturally follows that if the accounts do not balance the debit side will be greater. The difference between the two sides of each account, which is called the "balance," must necessarily show the amount owing to us. This result, therefore, is an *Asset.* Examine the Personal Accounts Payable in the same way and you will find that the balance is the amount we owe to others. These balances are *Liabilities.* The Capital Account shows the capital invested. The Merchandise Purchase and Merchandise Sales Accounts with the assistance of the Inventory shows the Income or the Revenue derived from the business, while the Cash Account shows the cash on hand which again is an Asset.

We are, therefore, enabled to classify all these accounts as follows:—

¶ 1. *Real Accounts.* Those acounts which show Assets and True Liabilities:—
- *a.* Personal—Accounts with persons.
- *b.* Impersonal—All other Real Accounts, *e.g.*, Cash, Land, Buildings, etc.

¶ 2. *Nominal Accounts.* Accounts which show additions to or deductions from income with no inventory value, *e.g.*, Sales, Salaries, Discount, Interest.

¶ 3. *Partial Real and Partial Nominal.* Accounts which before closing represent purchases for assets which are partially consumed during the conduct of the business, *e.g.*, Merchandise Purchases (that portion which has been sold is Nominal; that portion still on hand is Real).

¶ 4. *Propriewrship Accounts.* The accounts which express proprietorship, *e.g.*, Capital.

Exercises in Financial Statements.

When these exercises have been properly certified by your teacher, copy them in your Financial Statement Blank:—

¶ 1. TRIAL BALANCE OF HENRY SMITH.

December 31st, 19 .

		Dr.	Cr.
Henry Smith (Capital Invested)	B		$20,000
Merchandise Sales	T		35,000
Merchandise Purchases	T	$20,000	
Cash	B	24,750	
Accounts Receivable	B	12,000	
" Payable	B		1,750
		$56,750	$56,750
Merchandise Inventory, Dec. 31st	TB	$4,000	

From the above Trial Balance and Inventory make the following Financial Statements:—1st, Henry Smith's Trading Statement; 2nd, Henry Smith's Statement of Assets, Liabilities and Capital.

> Use your Financial Statement Blank. Copy the Trial Balance. Below the Trial Balance write the Merchandise Inventory, entering the amount in the first money column. Make the Trading Statement first. When you have

written the heading, collect the items from the Trial Balance which are required for the Trading Statement, adopting the "Statement" style. As each sum is entered on the Trading Statement, check each item in the Trial Balance with a check mark "T" meaning "Trading." Next, make the Statement of Assets, Liabilities and Capital following the statement style. As each Asset or Liability is entered on the Statement, check the item on the Trial Balance with a "B" meaning "Balance Sheet" which is another name for "Statement of Assets and Liabilities." In recording the Capital, show the original capital and profit or added capital. Now examine your Trial Balance to see that each item is checked. If your Statements have been correctly made, you will notice that opposite the inventory which is entered below the Trial Balance you have placed two check marks, a "T" and a "B," indicating that the *inventory is used in compiling both Statements.* When you have completed these Statements, copy them once more in your Financial Statement blank, showing them in the Account Form.

¶ 2. On January 1st, W. A. Sutherland invested $10,000 in a grocery business. After doing business for six months his books show the following results:—Merchandise Sales $6,740; Merchandise Purchases $5,240; Accounts Payable $3,260; Cash $10,550; Accounts Receivable $4,210. By taking stock he finds his Merchandise Inventory to be $2,130. Make a Trial Balance. Make a Trading Statement and Balance Sheet, showing two different arrangements of each.

¶ 3. From the following data make a Trial Balance, two Trading Statements showing different arrangements of figures and two Balance Sheets showing different arrangement of figures:—

James Hill commenced business on April 1st, 19 , and invested $10,000. At the end of his financial year, March 31st in the next year, his books showed the following results: Sales $32,000; Cash in Bank $1,200; Accounts Payable $2,700; Merchandise Inventory $4,500; Accounts Receivable $25,500; Purchases $18,000.

EXAMINATION, SECTION 6.

1. Define (*a*) Profit; (*b*) Loss.

2. What is a Trading Statement?

3. Define (*a*) Asset; (*b*) Liability.

4. What is a Statement of Assets & Liabilities?

5. Define (*a*) Inventory; (*b*) Physical Inventory; (*c*) Stock Taking; (*e*) Turnover; (*f*) Present Worth or Present Capital; (*g*) Balance Sheet.

6. Classify Accounts.

Section 7

TRANSACTIONS FOR THE MONTH OF MAY.

In your previous work you have been instructed when billing to make two copies of each invoice, the original for the customer and the duplicate as your record of the sale. This is the method followed in actual business. In your work as a student, the making of the carbon copy is really unnecessary as the original is merely filed and not mailed to the customer as in actual business. From this time forward to overcome the expense of making two invoices for each sale, you will be expected to make the original only and to file it as the sales record in the sales book section of your loose leaf binder.

The following Filled Orders have been received from the shipping room:

May 1, 19 . Henry Bell & Co., 121-23rd St. E., Calgary, Alta., via C.P.R. Terms Net 30 days. 6 Ledger Indexes, 28's canvas @ $3.00; 1 L.L. Binder #415 @ $12.00; 10M. Paper Fasteners, S2 @ $2.40; 6 gro. Pencils #21HB. @ $12.00; 8 gro. Pencils #21B. @ $12.00; 6 gro. Penholders, "Fingerfit," @ $15.00; 6 gro. Penholders, "Velvet," @ $12.00.

May 1, 19 . W. K. Wright, 427 Hastings St., Vancouver, B.C., via C.P.R. Terms Net 30 days. 3 Cash Books #412 @ $4.50; 6 gross Erasers, P. & P. #414 @ $5.60; 3 Journals #412, 500 pp. @ $4.50; 2M. L.L. Sheets #415 @ $9.00; 6 gro. Pens, Sprott's #1 @ $1.60; 6 gro. Pens, Sprott's #2 @ $1.60; 3 gro. Pens, Sprott's #3 @ $1.60.

May 1, 19 . A. C. Graham, Main St., Winnipeg, Man., via C.P.R. Terms Net 30 days. 6 lb. Rubber Bands #85 @ $4.80; 10 gro. Rulers, 12" #136 @ $24.00; 6 gro. Rulers, 15" #137 @ $32.00; 2 Ledger Indexes, 28's canvas @ $3.00.

May 1, 19 . C. R. Andrews, 559 Bank St., Ottawa, Ont., via C.N.R. Terms Net 30 days. 10M. Paper Fasteners, S2 @ $2.40; 6 doz. W.W. Paste @ $3.20; 6 gro. Pencils #21 HB. @ $12.00; 3 gro. Pencils #21B. @ $12.00.

May 1, 19 . Robt. Duncan & Co., Hamilton, Ont., via Canadian Exp. Collect. Terms Net 30 days. 2 gro. Penholders, "Fingerfit," @ $15.00.

May 1, 19 . Henry Bell & Co., 121-23rd St. E., Calgary, Alta., via Dom. Exp. Collect. Terms Net 30 days. 2 gro. Penholders, "Velvet," @ $12.00; 6 gro. Pens, Sprott's #10 @ $1.60.

NOTE.—The Billing for the above orders should be completed the day the goods are shipped, May 1st.

May 1st. *Cash Receipts.* C. R. Andrews, check payable at par $50.00; Henry Bell & Co., check payable at par $31.80.

May 1st. All cash on hand has been deposited by Mr. Adams.

The following Filled Order have been received from the shipping room:—

May 2, 19 . W. K. Wright, 427 Hastings St., Vancouver, B.C., via Dom. Exp. Coll. Terms Net 30 days. 2 lbs. Rubber Bands #85 @ $4.80; 2 doz. W.W. Paste @ $3.20.

May 2, 19 . J. D. Russell & Co., 124 St. Catherine St. W., Montreal, Que., via Can. Exp. Coll. Terms Net 30 days. 3 Cash Books #412, 500 pp. @ $4.50; 2 Journals #412, 500 pp. @ $4.50; 1 L.L. Binder # 415 @ $12.00.

NOTE.—Goods shipped on May 2nd should be billed on May 2nd.

May 2nd. *Cash Receipts.* Robt. Duncan, check payable at par $18.20; A. C. Graham & Co., check payable at par $50.00; W. K. Wright, check payable at par $200.00.

May 2nd. All cash on hand has been deposited by Mr. Adams.

Make the necessary entries in the Cash Book.

May 3rd. *Payments.* Mr. Adams has issued the following checks: Dominion Pencil Co., check No. 7, $300.00; Lufkin Rule Co., check No. 8, $400.00; Patterson & Co., check No. 9, $50.00.

Make the necessary entries in the Cash Book. Do not post.

§ 71. When Should Ledger Accounts be Balanced:—

¶ 1. *General Ledger Accounts.* If the standard ledger ruling is to be used, these accounts should be "footed" with very small lead pencil figures every time a Trial Balance is made, but should be balanced and ruled at the end of an accounting period only. When for the purposes of a Trial Balance, it is necessary to show the balance of an account (Standard Ledger ruling), this may be done by entering the balance in the "explanation" column on the proper side of the ledger account in small figures. The exception to the above rule is Cash Account. If this account is kept in the Ledger, it should be balanced every month and the balance brought below the rulings. If in the General Ledger the ruling provides for Debits, Credits and *Balances,* the balancing of an account is unnecessary as the result is shown in the "balance" column when a trial balance is taken. The accounts should be ruled at the end of an accounting period.

¶ 2. *Purchases and Sales Ledger Accounts.* As these ledgers are usually provided with a "balance" column, it is not necessary to rule the accounts, except when a payment cancels the complete previously entered indebtedness.

§ 72. When Should Balances of Personal Accounts be Extended to the Balance Column. This is a question on which the opinion of accountants and traders differ. If a daily proof of posting is taken, the balance must be extended after every entry. This requires a great amount of additional work, but the bookkeeper is often well repaid for his pains, because in this way he locates any error in posting the day it is made. Some business houses require the extensions to be made after each posting so that the account will show at any time the exact amount due. It is the usual custom, however, to show the balance of a personal account at the end of the month only, or at least on the date or dates on which Trial Balances are taken.

DEPOSITING.

Although the actual depositing of the money received by your firm has been done by Mr. Adams, it is necessary that you should get an intelligent idea of banking and the method of making a deposit.

§ 73. To Open An Account with the bank is a very simple matter indeed. The business man needs only to intimate to any bank manager that it is his desire to do so and the account will be opened in the books of the bank in the same manner as a merchant would open an account for a customer. Upon opening an account it is necessary for the client to record his signature in the signature book or file. Great care should be taken that a signature given by a client should be rigidly adhered to by him in signing checks so that the paying tellers will become so familiar with the individuality of the client's signature that a forged signature, which always differs materially from the genuine one, will immediately be detected.

§ 74. Savings and Current Accounts. Accounts opened in a bank are of two kinds, Savings and Current. A Savings Account is opened by those who wish to deposit, either small sums from time to time, or large sums for safe keeping with the understanding that frequent withdrawals are not likely to be made. On such accounts interest is allowed, but it is not the custom to allow clients to draw checks on Savings Accounts. This restriction, however, is not always adhered to by banks. The Current Account serves an entirely different purpose. It is used by the business man as he might use his safe. All

monies received are deposited daily and payments are made by check. On a Current Account, banks do not usually allow interest.

§ 75. Overdraft. An account is said to be "overdrawn" when a client has issued a check for a greater amount than he has deposited. Banks do not as a rule allow a client to have an overdraft unless it is secured against loss by depositing some shares of stock or other quick asset as a *collateral security*.

§ 76. Collateral Security is an additional security. It is the term applied to documents deposited so that they may be available in the event of default in the repayment of a loan or the failure of some other obligation.

§ 77. Check Books and Deposit Slips are supplied to their clients by banks free of charge. A sample of the latter is shown by illustration No. 41. The deposit slips used for Savings deposits are those printed in red ink, while those used for Current Accounts are printed in black ink.

§ 78. Bank Pass Book. When a deposit is made in a bank, the amount deposited is entered by a Ledger-keeper to the credit of the client's account. The bank pass book is then made out by the ledger-keeper, in which is entered each deposit as it is made. It is the duty of the person making the deposit to compare the amount credited in the bank pass book, (which is handed in with every deposit and returned again to the client as soon as entered), with the amount of the deposit as shown by his deposit slip or by his cash book. When checks are issued in payment of accounts, these checks are used in exactly the same way as those which have already been received by your firm. They are taken by the person receiving them to his bank when he makes a deposit. At the end of each day the banks send all checks received on other banks to a *clearing house*, where they are sorted and returned to the banks on which they are drawn. When they are received at the bank on which they are drawn, they are then charged against the clients' accounts. The next time a deposit is made by the client, these checks are entered in the bank pass book, so that when the pass book has been "entered up" it is an exact copy of his ledger account in the bank.

When the volume of business done with the bank is very large, it is the custom of banks to list the checks issued by clients on a Statement which, with the cancelled checks, is forwarded to the client either daily, weekly or monthly, according to the volume of business and the arrangement made with the client. In this event the cancelled checks are *not* entered in the Pass Book which is reserved for deposits and credits only, although the deposits also are listed on the periodic Statement issued to the client.

§ 79. Clearing House. A bankers' clearing house is a place in which representatives of different banks meet to exchange with other banks their various checks held by each against others and to settle differences of accounts.

ENDORSEMENTS.

§ 80. Negotiability of Checks. You may observe by reference to the checks which you have received, that each one has the wording "Pay to the order of" or "Pay to —— or order." These words "the order of" or "or order" are very important, because their use makes it absolutely necessary for the person in whose favor the check is drawn to write his name on the back of the check before presenting it for payment. This is called "endorsing" it. A bank will not cash or buy a check so drawn unless it is endorsed. A check may have the wording "or bearer" instead of "or order," and a check so drawn can be transferred or cashed without endorsement. Checks belong to a class of paper called "negotiable instruments" which are fully dealt with in Section 15, page 147.

§ 81. Specific Endorsements. There are various forms of endorsements which are fully dealt with in Section 15 The one which is most important at this stage of your work is called a "specific endorsement," see illustration No. 39. Such an endorsement guarantees that the check so endorsed, cannot be negotiated, transferred or used in any way except as directed by the endorsement. Every check received should be immediately endorsed in this manner.

FOR DEPOSIT ONLY
IN THE
CANADIAN BANK OF COMMERCE
TO THE CREDIT OF
GEORGE ADAMS

Illustration No. 39
Proper form of Specific Endorsement for all Checks received

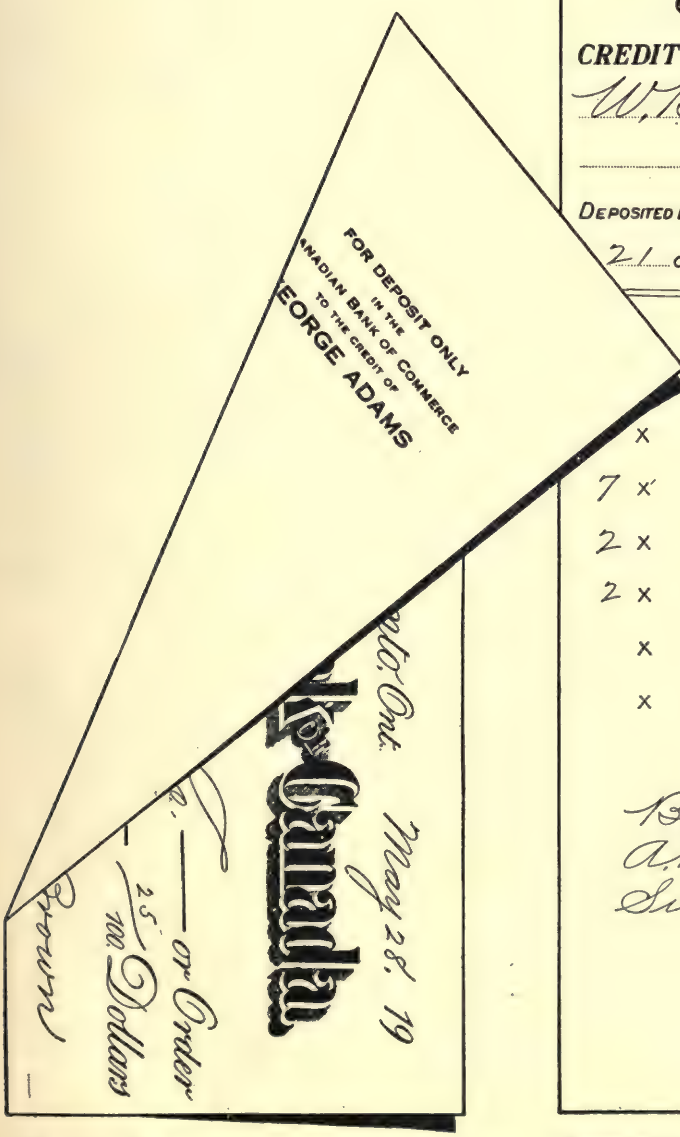


Illustration No. 40
Back of a Check showing the proper position for Endorsement

THE CANADIAN BANK OF COMMERCE

CREDIT W. B. Hamilton

DEPOSITED BY G. R.

21 OF Feb. 19

	1 =	21	—
	2 =	10	—
x	4 =		
7 x	5 =	35	—
2 x	10 =	20	—
2 x	20 =	40	—
x	50 =		
x	100 =		
	$	126	—
B.C.		42	47
A.R.G.		1240	05
Silver		5	—
	$	1413	52

Illustration No. 41 Deposit Slip

§ **82. Parties to a Check.** The person who issues a check is called the "drawer." The person in whose favor it is issued is called the "payee." The bank on which it is drawn is called the "drawee."

§ **83. Face Value.** The amount for which a check is drawn is called its "face" value. A check is said to be drawn "on" the bank in which funds are deposited.

EXCHANGE CHARGES ON CHECKS.

§ **84. Collection and Exchange Account.** Suppose A, located in Winnipeg, Man., sells to B in Toronto, a quantity of goods invoiced at $100.00. The terms of sale are f.o.b. Winnipeg, payable at par in Winnipeg. This means that A will deliver the goods to the station at Winnipeg and all charges of the transportation company for forwarding the goods to Toronto must be borne by B. The terms also require B to settle the account in Winnipeg, that is, to deliver to A in Winnipeg $100.00 in cash. The usual method of paying an account is by check. If B send a check to A for $100.00, the bank in Winnipeg will charge B about 15c for paying it, so that B should issue a check for $100.15 in order that A may get the full amount due to him in Winnipeg. If, however, B should send a check for $100.00 only, it is likely that A would accept the check as full payment of the account and would himself pay the 15c charged by the bank. This charge by the bank is called "exchange," and any record by A of such an expense would be made in an account called "Collection and Exchange."

§ **85. The Amount Charged for Exchange** by a bank is usually one-eighth per cent. of the face value of the check, unless this amount would be less than 15c. Fifteen cents is usually the minimum charge for small checks if they are drawn on banks in towns or cities where the bank cashing the check has a branch. If the particular ba k which is paying the check has not a branch in the town or city on which the check is drawn, then the charge would be ¼% and the minimum charge is usually 25c. For example, supposing A doing business in Winnipeg keeps his account with the Canadian Bank of Commerce. A receives from B of North Bay, Ont., where there is no branch of the Canadian Bank of Commerce, a check for $50.00 drawn on the Bank of Nova Scotia of North Bay. When A comes to deposit this check, since the regular rate of one-quarter per cent. would yield the bank an amount of only 12c, this one-quarter per cent. exchange does not apply, and the minimum charge of 15c is substituted, but an additional amount of 10c is also charged because there is not a branch of the Canadian Bank of Commerce in North Bay, the town where the check is payable. The total amount, therefore, which would be charged A on B's check under these circumstances, would be 25c, but if a branch of the Canadian Bank of Commerce had been located in North Bay, the charge would then only have been about 15c. The amount which a bank may charge for collection is governed by sections 93 and 94 of the Bank Act, which are as follows:—

> 93. When any note, bill, or other negotiable security or paper, payable at any of the bank's places or seats of business, branches, agencies or offices of discount and deposit in Canada, is discounted at any other of the bank's places or seats of business, branches, agencies or offices of discount and deposit, the bank may, in order to defray the expenses attending the collection thereof, receive or retain in addition to the discount thereon, a percentage calculated upon the amount of such note, bill, or other negotiable security or paper, not exceeding one-eighth of one per cent.; provided that the bank may make a minimum charge of fifteen cents. —53 V., c. 31, s. 82.
>
> 94. The bank may, in discounting any note, bill or other negotiable security or paper, *bona fide* payable at any place in Canada, other than at which it is discounted, and other than one of its own places or seats of business, branches, agencies or offices of discount and deposit in Canada, receive and retain, in addition to the discount thereon, a sum not exceeding one-fourth per cent. on the amount thereof; provided that the bank may make a minimum charge of twenty-five cents.—53 V., c. 31, s. 83.

§ **86. Exchange on Local Checks.** It is not customary for banks to charge exchange on checks issued on banks located in the same town or city in which the check is drawn.

Foreign and Domestic Exchange is fully dealt with in Section 15.

The following Filled Orders have been received from the shipping room:

May 10, 19 . W. K. Wright, 427 Hastings St., Vancouver, B.C., via Dom. Exp. Coll. Terms Net 30 days. 1M. Paper Fasteners S2 @ $2.40; 1 doz. W.W. Paste @ $3.20; 2 gro. Pencils #21HB. @ $12.00; 1 gro. Pencils #21B. @ $12.00.

May 10, 19 . Henry Bell & Co., 121-23rd St. E., Calgary, Alta., via Dom. Exp. Coll. Terms Net 30 days. 2 gro. Pencils #21B. @ $12.00; 1 gro. Penholders, "Velvet," @ $12.00; 4 gro. Penholders, "Fingerfit," @ $15.00.

NOTE.—Sales are usually posted daily to the personal accounts receivable in the Sales Ledger, but the sales are not usually recapitulated for posting to the General Ledger until the balancing date. Some firms recapitulate the sales daily and carry the previous total forward, posting the total on the balancing date. Those who make a Trial Balance daily must recapitulate and post the total sales daily.

> In actual business, as soon as the billing was completed, it would be your duty to post to the Sales Ledger. In following the work outlined in this text, however, this procedure would not be advisable until all your results had been checked by your teacher. Do not post either to the Sales Ledger or to the General Ledger until directed to do so or at the end of the month.

The following properly certified invoices for goods have been received from the receiving room:—

May 1, 19 . Patterson & Co., (your address), via Delivery. Terms Net 30 days. 100 Cash Book #412, 500 pp. @ $3.00—$300.00; 100 Journals #412, 500 pp. @ $3.00—$300 00; 150 L.L. Binders #415 @ $8.00—$1,200; 200M. Ledger Leaves #415 @ $6.00—$1,200.00; 8 doz. Ledger Indexes, 28's, Canvas @ $24.00—$192.00. Total—$3,192.00. *Enter in the Purchase Book the date of the invoice not the date on which the entry is made.*

May 1, 19 . Canadian Importing Co., (your address), via Delivery. Terms Net 30 days. 200 gro. Pencils #21HB. @ $8.00—$1,600.00; 200 gro. Pencils #21B. @ $8.00—$1,600.00; 100M. Paper Fasteners S2 @ $1.60—$160.00; 100M. Paper Fasteners S1 @ $1.60—$160.00; 24 gro. Erasers, P. & P. #414 @ $4.00—$96.00; 24 gro. Erasers, Type. #420 @ $4.00—$96.00. Total—$3,712.00.

Apr. 20, 19 . Commercial Text Book Co., Toronto, Ont., via C.P.R. Freight Prepaid. Terms Net 30 days. 500 gro. Pens, Sprott's #1 @ $1.10—$550.00; 500 gro. Pens, Sprott's #2 @ $1.10—$550.00; 300 gro. Pens, Sprott's #3 @ $1.10—$330.00; 400 gro Pens, Sprott's #10 @ $1.10—$440.00; 500 Arithmetic, New Method, @ $1.92—$960.00; 500 Speller, Canadian Business @ $0.64—$320.00. Total—$3,150.00.

Apr. 24, 19 . Dominion Pencil Co., Montreal, Que., via C.P.R. Prepaid. Terms Net 30 days. 200 gro. Penholders, "Fingerfit," @ $10.00—$2,000.00; 300 gro. Penholders, "Velvet," @ $8.00—$2,400.00; 50 doz. Inkstands #712 @ $24.00—$1,200.00. Total—$5,600.00.

May 5, 19 . Patterson & Co., (your address), via Delivery. Terms Net 30 days. 50 L.L. Binders #415 @ $8.00—$400.00; 25M. Ledger Leaves #415 @ $6.00—$150.00; 4 doz. Indexes, 28's, Canvas Tabs, @ $24.00—$96.00. Total—$646.00.

May 5, 19 . Canadian Importing Co., (your address), via Delivery. Terms Net 30 days. 50 gro. Paper Fasteners S1 @ $1.60—$80.00; 75 gro. Paper Fasteners S2 @ $1.60—$120.00; 24 gro. Erasers, P. & P. # 414 @ $4.00—$96.00; 21½ gro. Erasers, Type. #420 @ $4.00—$86.00; 150 gro. Pencils #21HB. @ $8.00—$1,200.00; 225 gro. Pencils #21B. @ $8.00—$1,800.00. Total—$3,382.00.

May 5, 19 . Stafford Ink Co., (your address), via Delivery. Terms Net 30 days. 20 gro. W.W. Paste @ $24.00—$480.00.

The above invoices represent goods bought for resale. Make the proper records in the Purchase Book. Do not post until the end of the month. All your calculations should be checked by your teacher before any posting is done.

May 15. *Cash Receipts.* W. K. Wright, check $45.20; J. D. Russell, check $25.00; A. C. Graham & Co., check $36.80; C. R. Andrews, check $35.00; Peoples Stationery Co., check $25.00.

None of the above checks are marked payable at par, and when deposited will be subject to a charge for exchange. All checks received in future will be subject to charges for exchange unless otherwise stated.

Make the proper entries in the Cash Book. Do not post.

May 15. Mr. Adams has deposited all cash on hand. As these checks are not marked "payable at par at your address," the bank cannot be expected to place to your credit the face value of the checks without charging exchange. The amount paid for exchange on these checks is 75c. Mr. Adams has issued a check in favor of the bank for this amount.

Make the proper entry in the bank column for the deposit. Make an entry on the contra or "paid" side of the cash book for the check as previously instructed.

§ 87. Methods of Paying Exchange. There are various ways of treating exchange charges. Some bookkeepers favor the plan of deducting the exchange from the deposit, getting credit from the bank *not* for the total cash received *but* for this amount less exchange. Others favor the plan of depositing the total cash received, so that the total deposits will at all times equal total receipts. When this plan is followed, the exchange is usually paid in money. To provide for having money on hand for such a purpose, since all cash received is deposited, the bookkeeper issues a check for a small amount which he calls "Petty Cash Fund." This check is then cashed and the money is kept in a cash drawer for sundry small expenses. These small items of expense are kept in a smaller cash book or sheet called a "Petty Cash Book" or "Petty Cash Sheet" and the totals of such expenses are carried periodically into the General Cash Book. A full explanation and illustration of the petty cash book will be found on page 91, but as you have not kept such a book up to this time, it has been necessary for Mr. Adams to issue the small check referred to above for exchange. The issuing of such a small check for this purpose is not the custom in business, but is the best plan which you can adopt at this stage of your work in the absence of the petty cash book.

EXPENSE ACCOUNTS.

It is evident that in a business office, it would be practically impossible to have conducted business for a period of five months without having incurred any expenses which would necessitate entries in the books. The introduction of such expense items has purposely been deferred in this work so that the student might be able to undertake the various duties gradually and might not be encumbered early in his work with instruction and entries for all the transactions which might come up in even one day's actual business.

§ 88. Selling Expense and Administrative Expense. At this point you must learn to regard purchases made by your firm under two distinct headings. First, goods bought to be resold; second, goods, services or articles bought to be used in the conduct of your business. You have already made records of goods bought to be resold. These goods have been recorded in your Merchandise Purchases Account. This merchandise is to be resold at a profit and it is from the sale of this merchandise that the gross trading profit is obtained. In the conduct of a business, however, it is impossible to buy and sell merchandise without incurring many expenses, and it is to the proper recording of such expenses that you must now turn your attention. These expenses include the following:—

Salaries, wages, postage, paper, envelopes, booklets for advertising, catalogues and all other supplies which it is necessary to buy for office or warehouse use. In keeping a record of such expenses it is desirable to classify them according to the department for which they are incurred, so that at the end of a financial year it will be possible to ascertain the total expense for each department.

Expenses in a trading concern are usually divided into at least three distinct headings: 1st, *Selling Expense;* 2nd, *Warehousing and Delivery Expense;* 3rd, *General and Administrative Expense.* Selling Expense as the term implies includes all expenses relating to the selling of goods such as travellers' salaries, samples, advertising, advertising materials, etc. Warehousing and Delivery Expense includes the items of expense incurred in getting the goods into the hands of the customer, such as warehouse salaries, warehouse materials, wrapping paper, delivery expense, twine, cases, excelsior, and other materials used in shipping. General and Administrative Expense includes almost all other expenses such as salaries of officers and office staff, office stationery and supplies, taxes, light, fuel, water, insurance, telephones, etc.

§ 89. Methods of Recording Expense in the Ledger. There are two methods of recording expenses in the Ledger. The first is by opening in the ledger only three main expense accounts according to the above classification charging each item of expense under its proper heading. If this plan be followed, three expense accounts only will appear in the financial statement, namely, Selling Expense, Warehousing and Delivery Expense, General and Administrative Expense. To show the separate expenses it would then be necessary at the end of the accounting period to classify the items making up each on an Analysis Sheet. A second and a better method for the junior bookkeeper is to keep a separate account for each expense so that when the financial statement is prepared these various expenses can then be summarized under the three headings already suggested. While this plan requires more bookkeeping, the additional labor is offset by the advantage of having at all times for ready reference and comparison, a detail of the various expenses up to any given date. In more advanced bookkeeping, the number of expense accounts will be as limited as possible and the details of these expenses will be shown on separate analysis sheets or statements. The number of expense accounts will be determined by the nature of the business.

§ 90. Salaries Charged through Cash Book. Some expenses are for services and others are for supplies. Supplies purchased will be recorded on a purchase order form, an invoice will be received, checked and entered in the purchase book exactly the same as merchandise purchases, with this difference, that while the merchandise is charged to Merchandise Purchases Account, the items of expense are charged to the proper expense accounts. Salaries paid to all employees may be considered expense for services and for such expenses it is not usual for the bookkeeper to get an invoice or bill as with other expenses. These expenses are not entered in the Purchase Book, but are paid by check when they are due, the bookkeeper taking a receipt for the check given, unless he is supplied with an authorized salary list issued by a proper official. This receipt or list forms a voucher similar to the receipted bill or statement given when payment is made for a bill of goods.

May 21. Mr. Adams has issued the following checks: Warehouse Wages: W. R. Bowman, $14.00; A. G. Helliwell, $9.00. (Debit Warehouse Wages Acct.) Warehouse Postage: Samuel Withers, $5.00. (Debit Warehouse Postage Acct.) Travellers' Salaries: Henry Simpson, $30.00; William R. Hudson, $30.00. (Debit Travellers' Salaries Acct.) Office Salaries: Miss Margaret Watson, $16.00; Miss Helen Small, $15.00. (Debit Office Salaries Acct.) Office Postage: Samuel Withers, $10.00. (Debit Office Postage Acct.)

> In entering these checks in the Cash Book, they should be individually charged to the proper expense account. When you are posting at the end of the month, these expense accounts will be opened in the General Ledger and when a statement is made they will be summarized under Selling Expenses, Warehousing and Delivery Expenses and General and Administrative Expenses. Do not post until you are instructed to do so.

§ 91. **Expense Accounts Charged through the Cash Book and those charged through the Purchase Journal.** In addition to salaries there are other expenses which are paid without opening a ledger account in the Purchase Ledger with the firm from whom the goods have been purchased. Certain office supplies are frequently purchased from firms from whom additional purchases are not likely to be made. In such cases, in order to save opening an account in the Purchase Ledger, it is customary to pay the bill upon presentation—when properly certified by a proper official—and by charging the proper expense account in the Cash Book, to complete the transaction, instead of crediting the firm through the Purchase Book, opening an account in the Purchase Ledger and again charging the account with the payment at that time in the month when general payments are made. You will, therefore, note that expense items are treated by the bookkeeper in three ways, as follows:—*first*, salaries paid by check without invoice or bill, a voucher taken for the amount paid, and the proper expense account charged or debited through the Cash Book; *second*—called Cash Purchases—small and unusual invoices paid by check upon presentation, the bill receipted and the proper expense account charged through the Cash Book, no personal account payable being opened in the Purchase Ledger; *third*, invoices for expense items recurring regularly for goods which are usually purchased from the same firms. The third group is treated exactly the same as merchandise purchases, the invoice when checked being entered in the Purchase Journal, the item posted to the credit of the proper personal account payable, and debited to the proper expense account when the totals of the Purchase Journal are posted. The account is paid in the regular way at that time in the month when such accounts receive attention. In some offices owing to the volume of business, it is necessary to keep two Purchase Books, one for purchases of merchandise and another for all other purchases.

Every invoice for goods purchased should be stamped with a rubber stamp, or should have pasted on it a label as follows:—

DATE RECEIVED ....

CHECKED WITH PURCHASE ORDER BY ....

GOODS RECEIVED BY ....

CALCULATIONS CHECKED BY ....

CHARGE .... ACCOUNT

ENTERED IN .... PAGE ....

COSTED BY ....

PERPETUAL INVENTORY PAGE ....

Illustration No. 43
Rubber Stamp used on all Incoming Invoices

When the invoice is received and stamped as above, the date is entered in the first space. The invoice is then compared with the Purchase Order to verify price, dating, date of delivery, etc. It is then forwarded to the department which receives the goods or incurs the expense and there certified as to the due receipt of the goods or services. It is next returned to the accounting department where all calculations are checked and a record made on the invoice as to the particular account or accounts which are to be charged.

The invoice is then ready to be entered either in the Purchase Journal if an account is to be opened with the vendor, or in the Cash Book if the amount is to be paid immediately without opening an account for the vendor When it has been thus disposed of, it is usually "costed," that is the laid down cost of the goods is figured. If a book or perpetual

inventory is kept, the goods received are then entered on this list and the invoice is checked accordingly.

May 25. Mr. Adams has issued checks for the following invoices received to-day:—Victoria Twine Co. Terms C.O.D. Wrapping Paper, $6.32; Twine, $3.00. Total—$9.32.

Clark & Co. Terms C.O.D. Letter Head, $8.00; Envelopes, $4.00. Total—$12.00. The first invoice is for materials used in the warehouse. Charge Warehouse Supplies. The second is for materials used in the office. Charge Office Supplies.

As these purchases are from firms from whom you seldom buy and for whom you do not wish to open accounts, you will charge these goods through the Cash Book. (Second method of treating Expense items.)

May 26. The following properly certified invoices have been received from firms with whom Mr. Adams wants you to open accounts in your Purchase Ledger:—

May 26, 19 . Commercial Text Book Co., Toronto, Ont. Terms Net 30 days. 6 Boxes Carbon Paper @ $2.00—$12.00; 6 Typewriter Ribbons @ $1.00—$6.00; Total—$18.00.

May 26, 19 . Grand & Jones, your address. Terms Net 30 days. Rubber stamps for office, $4.00.

May 26, 19 . W. J. Gray & Co., your address. Terms Net 30 days. 1M. Shipping Labels, $3.00; 2M. Statements @ $4.50—$9.00=$12.00.

NOTE.—Shipping Labels are for Warehouse; Statements for Office.

May 27, 19 . Irish & Johnson, your address. Terms Net 30 days. Premium on policy No. 43267—$8,000 @ $12.00—$96.00. Term of Policy 1 year. Date May 1, 12 o'clock noon.

No.________

Wired________

ORDER FOR MAIL OR TELEGRAPHIC TRANSFER

____________________ 19___

To THE CANADIAN BANK OF COMMERCE

____

Please Transfer by____________, at our risk to your branch at____________

the sum of____________________ Dollars,

to be paid to____________________

on account of____________________

The applicant hereby indemnifies the Bank against loss arising out of delay or other irregularity in the transmission of the above message.

Par $__________

$__________

Com.______per c. $__________

Telegraph charges $__________

____________________ Applicants

Illustration No. 44 A form used when remitting funds by wire.

Enter these invoices in your Purchase Journal, crediting the firm from whom the goods have been purchased and entering the amounts in the proper columns (you will notice that your Purchase Journal has four money columns). Write the following headings at the top of the money columns:—No. 1, Amount of Invoice; No. 2, Mdse. Purchases Dr.; No. 3, Office Supplies Dr.; No. 4, Warehouse Supplies Dr. All items which do not belong to the first three columns may be entered in the money column at the extreme right (see illustration No. 22). You may note that of the W. J. Gray invoice, $9.00 should be entered in the Office Supplies column and $3.00 in the Warehouse Supplies column. It may sometimes occur that an :nvoice may represent not only goods which are to be resold and therefore chargeable to Merchandise Purchases, but also other items. On such an invoice the items should be properly grouped so that the proper accounts will be charged with the correct amount.

The following filled order forms have been returned from the shipping room:—

May 26, 19 . Russell & Co., 124 St. Catherine St., Montreal, Que., via G.T.R. Terms Net 30 days. 25 Arithmetic, New Method @ $2.40; 10 Cash Book #412, 500 pp. @ $4.50; 4 gro. Erasers #414, P. & P., @ $5.60; 1 doz. Inkstands #712 @ $30.00.

May 26, 19 . W. K. Wright, 427 Hastings St., Vancouver, B.C., via C.P.R. Terms Net 30 days. 10 Journals #412, 500 pp., @ $4.50; 10 L.L. Binders #415 @ $12.00; 10M. L.L. Sheets #415 @ $9.00; 5 L.L. Indexes, 28's, Can. Tabs, @ $3.00; 10M. Paper Fasteners, S1 @ $2.40.

May 26, 19 . A. C. Graham & Co., Main St., Winnipeg, Man., via C.P.R. Terms Net 30 days. 10M. Paper Fasteners, S2 @ $2.40; 20 doz. Paste, Stafford's W.W. @ $3.20; 10 gro. Pencils #21HB. @ $12.00; 20 gro. Pencils #21B. @ $12.00.

May 26, 19 . Robt. Duncan, Hamilton, Ont., via Can. Exp. Collect. Terms Net 30 days. 20 gro. Penholders, "Fingerfit," @ $15.00; 15 gro. Penholders, "Velvet," @ $12.00; 50 gro. Pens, Sprott's #1 @ $1.60; 50 gro. Pens, Sprott's #10 @ $1.60.

May 26, 19 . C. R. Andrews, 559 Bank St., Ottawa, Ont., via C.N.R. Terms Net 30 days. 65 gro. Pens, Sprott's #2 @ $1.60; 70 gro. Pens, Sprott's #3 @ $1.60; 6 lbs. Rubber Bands #85 @ $4.80.

May 26, 19 . Henry Bell & Co., 121-23rd St., Calgary, Alta., via C.P.R. Terms Net 30 days. 10 gro. Rulers, 12" #136 @ $24.00; 18 gro. Rulers, 15" #137 @ $32.00; 50 Speller, Canadian Business, @ $0.80; 150 Arithmetic, New Method @ $2.40.

May 26, 19 . A. R. King & Son, 149 Government St., Victoria, B.C., via C.P.R. Terms Net 30 days. 20 Cash Book #412, 500 pp. @ $4.50; 6 gro. Erasers, P. & P., #414 @ $5.60; 3 gro. Erasers, Type. #420 @ $12.00.

May 26, 19 . Geo. R. Moore, St. John, N.B., via C.P.R. Terms Net 30 days. 3 doz. Inkstands #712 @ $30.00; 15 Journals #412, 500 pp. @ $4.50; 20 L.L. Binders #415 @ $12.00; 20M. L.L. Sheets #415 @ $9.00; 20 Indexes, 28's, Can. Tab, @ $3.00.

May 26, 19 . Robert Morrison, Edmonton, Alta., via C.P.R. Terms Net 30 days. 20M. Paper Fasteners, S1 @ $2.40; 25M. Paper Fasteners, S2 @ $2.40; 25 doz. Paste, Stafford's W.W. @ $3.20; 50 gro. Pencils #21HB. @ $12.00; 25 gro. Pencils #21B. @ $12.00.

May 26, 19 . Russell & Co., 124 St. Catherine St., Montreal, Que., via Dominion Exp. Coll. Terms Net 30 days. 10 gro. Penholders, "Fingerfit," @ $15.00; 15 gro. Penholders, "Velvet," @ $12.00; 6 gro. Pencils #21HB. @ $12.00; 8 gro. Pencils #21B. @ $12.00.

Before attempting to prepare your Trial Balance, you should have the entries in your books checked by your teacher. Have them checked in the following order:—First, Invoicing; Second, Purchase Book; Third, Cash Receipts; Fourth, Cash Payments. If all the amounts are correct, proceed as follows:—

1st. Recapitulate your Sales showing total in lead pencil.

2nd. Show totals in small lead pencil figures of each column in Purchase Book.

3rd. Show totals in small lead pencil figures of each column in the Cash Book and figure the Cash Balance.

4th. Have all these figures checked by your teacher.

5th. Post from the Sales Book to Sales Ledger.

6th. Rule the Recapitulation of Sales Sheet and post to General Ledger.

7th. Rule the Purchase Book as in illustration No. 52A.

8th. Post the items of the 1st money column in the Purchase Book to the credit of your creditors. Post the totals except items in the last money column to the General Ledger, opening accounts on General Ledger Sheets (standard ruling) for "Warehouse Supplies," "Office Supplies" and "Insurance on Stock." Items in "Other Accounts Column" must be posted individually. Check each item as it is posted.

9th. Balance the Cash Book.

10th. Post the items on the "Received" side of Cash to the credit of proper accounts in the Sales Ledger.

11th. Post the total Cash Received in May to the debit of Cash Account in the General Ledger.

12th. Post the items on the "Paid" side of Cash to the debit of the proper accounts in Purchase and General Ledgers, opening new accounts when necessary.

13th. Post the total Payments in May to the credit of Cash Account in General Ledger.

NOTES.—1. Every entry when posted should be properly checked.

2. The cash balance for the previous month should be added at the bottom and should not form a part of any total posted from the Cash Book. The cash balance for last month is already in the Ledger.

3. Every item that has been posted to the *debit* side of the Ledger has helped to form a total which has been posted to the *credit* side of the Ledger and *vice versa.*

4. All Account Sheets should be filed in the Ledgers alphabetically.

THE BANK RECONCILIATION STATEMENT.

§ 92. The Circuit or Course of a Check. Accounts due are usually paid on a certain date in each month after the monthly statements have been received. Since a statement received is merely a summary of the invoices already in hand, it *is essential that no record should ever be entered in the books from a statement.* When a statement is found to be correct and a check is issued in payment of the account, the statement should be sent to the creditor to be receipted and returned. When the receipted statement, which is now called a voucher, has been returned, it should be attached to the invoices of which it is a summary and filed either alphabetically or in any other convenient way desired according to the system adopted in the office. The check is in due course endorsed by the holder and is deposited in his bank. From his bank it goes by mail or by messenger with others of a similar nature, to the Clearing House, from which place it is forwarded to the bank on which it was drawn. It is then charged in the bank Ledger to the account of the client who has issued it. The amount of this check is entered in the bank pass book of the client the next time the pass book is handed in with a deposit, but the check is kept by the bank until the end of the month. At that time the client's pass book is balanced by the bank showing the balance of the pass book to be the amount of money he has on deposit in the bank. All the checks that have been entered in the pass book during the month if not already returned are, on the first day of the following month, returned to the client with his pass book.

§ 93. Cancelled Checks. Upon receiving these cancelled checks it is the duty of the bookkeeper to check them with the Bank Pass Book and with his Cash Book to see that all have been returned, and then to file each check. The system of filing checks varies in different offices but checks are usually filed in numerical order on a Cash Book Vouchers File. See Part II § 397.

§ **94. Outstanding Checks.** It may happen that some checks issued near the end of the month and which have been entered in the Cash Book have not, before the end of the month, gone the circuit of the payee, his bank, the Clearing House and the bank on which the checks were drawn. As a result the Ledger-keeper in the bank has not had an opportunity of entering them either in the client's account or in his Pass Book. Since these checks have reduced the cash balance in the Cash Book but have not reduced the cash balance in the bank, the balance in the Pass Book will not agree with the true cash balance as shown in the Cash Book. When the bookkeeper compares the returned checks with the total checks issued, he can easily determine the number and amount of the checks not entered in the Bank Pass Book. These checks are said to be "outstanding," abbreviated, OS. To account for this apparent discrepancy, it is necessary to make a statement of outstanding checks in the Cash Book. Such a statement is called a "Bank Reconciliation Statement." For example, suppose the true cash balance to be $500.00, Bank Pass Book balance $580.00, checks outstanding as follows:—No. 221, Bell, $40.00; No. 227, Smith, $25.00; No. 246, Hall, $15.00; the Reconciliation Statement would appear in the Cash Book below the ruling as follows:—

BANK RECONCILIATION STATEMENT.

Balance, per Bank Pass Book		$580.00
Less checks OS:—		
# 221, Bell	$40.00	
# 227, Smith	25.00	
# 246, Hall	15.00	
		80.00
True cash balance, per Cash Book		$500.00

Illustration No. 45

May 31. Mr. Adams has received from the bank all cancelled checks from the previous month and has checked them with the Cash Book and found them to be correct. The Pass Book is illustrated below.

THE COLLEGE BANK

In Account With George Adams

DATE				DEPOSITS		CHECKS			CHECKS		CHECKS	
Apr	30	Bal.	D	8238	—	50	—					
May	1	Dep.	F	81	80		75					
	2	"	F	268	20	400	—					
	15	"	F	167	—	300	—					
						10	—					
						16	—					
						14	—					
						15	—					
						5	—					
						9	—					
						30	—					
						7905	25	B				
				8755	—	8755	—					

Illustration No. 46 George Adams' Bank Pass Book on May 31

Compare the Pass Book with your Cash Book. Balance the Cash Book and prepare a Bank Reconciliation Statement. Have the Reconciliation Statement checked by your teacher and copy it on the Paid side of the Cash Book immediately below the ruling. See illustration No. 45.

Make a Trial Balance. Before doing so, you must balance the Cash Account in the Ledger. Also show the footing of each account in the General Ledger in very small lead pencil figures. Extend to the "balance" column all balances of Personal Accounts in the Purchase and Sales Ledgers. Show the total Accounts Receivable and total Accounts Payable in the Trial Balance making an analysis below.

RENDERING STATEMENTS.

§ 95. Statement of Accounts. It is customary for every firm to send to each customer a statement of his account on the first day of each month. This statement

Statement

GEORGE ADAMS

CONDUCTING BUSINESS AT

________________ CANADA

Student's Address

Date *May 31, 19-*

Name *Mr. C. R. Andrews*

Address *559 Bank St.*

Ottawa, Ont.

		Acct. Rend.	*235*	*50*		
May	*1*	*Mdse.*	*151*	*20*		
	26	*"*	*244*	*80*	*631*	*50*
		Cr				
May	*1*		*50*	*—*		
	15		*35*	*—*	*85*	*—*
					546	*50*

Illustration No. 47 Statement of Account

should show the balance due, if any, at the beginning of the previous month, the date and amount of each sale, the date and amount of each payment made and any other debit or credit which may appear in the customer's account during the previous month. It should show the balance due, which should agree with the balance of the account in the Sales Ledger. It is really a copy of the customer's personal account as it appears in the Sales Ledger. Accuracy of the balances of all personal accounts should be proved by making the monthly trial balance before statements are rendered, but it is not always possible for the bookkeeper to complete his trial balance by the first of the month, and as it is very necessary that the statements should be rendered promptly, it is the usual practice to render the statement on the first day of the month whether the trial balance has been completed or not. If in completing the trial balance, an error in the balance of a personal account should be disclosed after the statement has been rendered, a corrected copy must immediately be sent to the customer.

§ 96. Voucher. A Voucher is any document in writing which evidences the payment or receipt of money, *e.g.*, a receipt or receipted bill. A Voucher is also any book, paper, or document which serves to vouch the truth of accounts or to confirm or establish facts of any kind. In this sense, properly certified invoices whether paid or unpaid are vouchers.

§ 97. The Voucher System. In recent years, the introduction of a system of recording purchases known as the "voucher system" has to a great extent limited the use of the term "voucher" to a paper or printed form on which are recorded all details of a debt incurred and which is signed by a proper official. Sometimes these vouchers and the checks issued in payment of the debts which they represent are two separate and distinct documents, while again they may be combined in one. The voucher system has become so popular, especially with large concerns, that the use of the word "voucher" according to its former meaning has been very largely discontinued, and we now quite frequently hear Accounts Payable spoken of as "Vouchers Payable" and Accounts Paid as "Vouchers Paid," while a record of all purchases is frequently spoken of as a voucher Register or Voucher Record, which is in reality a Columnar Purchase Book altered and extended to include the functions of a Purchase Ledger.

While the printed Voucher serves a very useful purpose, especially when used by a large concern, it is not any more entitled to the term "Voucher" than is the properly checked and certified invoice of the smaller concern, providing the invoice exhibits all the data required by the printed form.

A complete explanation of the voucher system is given in Part II. § 390.

From the diagram on opposite page, the following deductions can be made:—(1) All Assets appear on the Dr. side of the Ledger; (2) All Costs of operations appear on the Dr. side; (3) All Liabilities (or Negative Assets) appear on the Cr. side; (4) All Profits appear on the Cr. side; (5) Capital balance appears on the Cr. side.

Summary:—The Debit side of the Ledger shows Assets and Coats of Operations or Expenses. The Credit side shows Liabilities, Profits and Capital.

NOTE.—The element of Costs as shown on the Credit side in Mdse. Sales can be left out of our calculation as it simply corresponds with the same figure appearing on the Debit side in Mdse. Purchases. This condition is true in every ledger kept by the double entry system. The student should study this diagram carefully and remember that *Assets & Costs always appear on the Debit side of the Ledger. Liabilities* (which are merely negative assets), *Profits* and *Capital always appear on the Credit side of the Ledger.* If this rule is fully understood, the student need never be in doubt in regard to the debiting or crediting of any account.

FINANCIAL STATEMENTS.

§ 98. Trading and Profit and Loss Statements. By reviewing the information on Financial Statements in Section 6, you will notice that the bookkeeper is required to periodically prepare from his books, first a Trading and Profit and Loss Statement; second a Balance Sheet or Statement of Assets and Liabilities. You may note also that the first

§ 99.

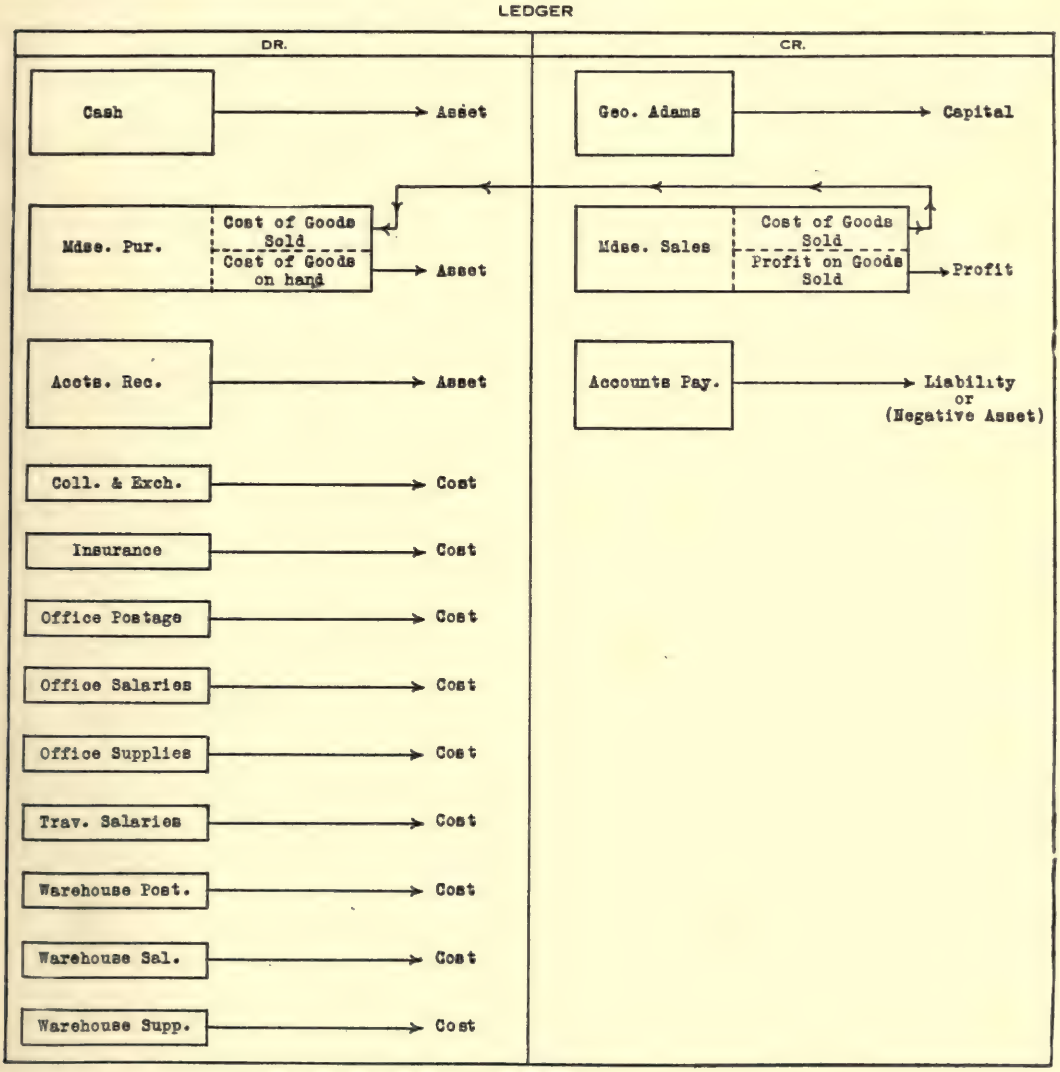


Illustration No. 48

DIAGRAM OF THE LEDGER ILLUSTRATING THE FOLLOWING PRINCIPLES OF DOUBLE ENTRY BOOKKEEPING.

Debit Side of Ledger contains:—

(*a*) The various accounts which show the distribution of the Proprietor's Wealth (Assets).

(*b*) The accounts which show the Costs of operating.

Credit Side of Ledger contains:—

(*a*) The Original Capital or Wealth of the Proprietor.

(*b*) The accounts which show Negative Assets (Liabilities).

(*c*) Added Capital or Returns from operating (Profits).

of these Statements is divided into two parts: first, the Trading or Income from Sales; second, the Profit and Loss or Deductions from Income. You have had experience in preparing the Trading Statement and the Balance Sheet, but as your experience in book-keeping up to the date on which these Statements were made, did not include the keeping of Profit and Loss or Spending Accounts, the Profit and Loss section of the Trading and Profit and Loss Statement has been deferred until the present.

To illustrate the complete Trading and Profit and Loss Statement, let us once more take a simple problem in arithmetic:—

John Brown bought goods for $100.00. He sold a portion of his goods for $75.00, but paid an express man $2.00 to deliver the goods. By taking stock he finds that he still has goods on hand at cost price to the value of $30.00. Find his *net profit.* This net profit may be shown in a Statement in the following way:—

John Brown
TRADING & PROFIT & LOSS STATEMENT.

Trading.		
Mdse. Sales (Turnover)		$75.00
Mdse. Purchases	$100.00	
Deduct Inventory	30.00	
		70.00
Gross Trading Profit		$ 5.00
Profit & Loss.		
Gross Profit as above		$5.00
Less Expenses		2.00
Net Profit		$3.00

Illustration No. 49

This simple problem represents the condition of the business of your employer at the present time. By referring to your last Trial Balance you will note that you have purchased goods for $25,330.00, you have sold goods for $8,274.50, you have been put to certain expenses in the conduct of your business. These expenses are represented by the following:—Office Postage, Office Salaries, Office Supplies, Travellers' Salaries, Warehouse Postage, Warehouse Salaries, Warehouse Supplies, etc. In order, therefore, to ascertain the net profit on your business, it is only necessary for you to know, first, the merchandise inventory; second, the value of materials or services paid for but not yet used.

Suppose your merchandise inventory is $19,709.40. Suppose also that you have on hand the following values or materials not used:—Office Supplies, $40.00; Warehouse Supplies, $10.00; Insurance Premium prepaid, $94.68. Find the net profit on the business of your employer from Jan. 1st to May 31st inclusive by preparing a Trading and Profit and Loss Account in Statement Form. Before commencing to prepare this Statement enter the inventories below the Trial Balance as follows:—

Merchandise Inventory		$19,709.40
Deferred Charges:—		
Office Supplies	$40.00	
Warehouse Supplies	10.00	
Insurance Prepaid	94.68	
		144.68

Illustration No. 50

It is customary in preparing a Financial Statement of this nature to bring together all the expenses of a similar nature. All the expenses, therefore, which were incurred in the warehouse will be entered under the heading of Warehouse and Delivery Expenses. Those relating to cost of selling will come under the heading of Selling Expenses and all others will be grouped under General Administrative Expense. In transferring each item

from the Trial Balance to the Statement, be careful to check each as follows:—"T" for Trading, "P. & L." for Profit and Loss. When complete, your statement should appear as follows:—

GEORGE ADAMS
TRADING & PROFIT & LOSS STATEMENT
for period ending May 31, 19 .

TRADING.						
Sales (Turnover)					8,274	50
Purchases			25,330	00		
Deduct Present Inventory			19,709	40		
Cost of Goods Sold					5,620	60
Difference being Gross Profit					2,653	90
PROFIT & LOSS.						
Gross Profit					2,653	90
Selling Expense:-						
Travellers' Salaries			60	00		
Warehouse & Delivery Expense:-						
Warehouse Salaries		23.00				
" Supplies (Cost)	12.32					
Deduct Value Unused (Deferred Charge	10.00	2.32				
Warehouse Postage		5.00	30	32		
General Administrative Expense:-						
Office Postage		10.00				
" Salaries		31.00				
" Supplies (Cost)	43.00					
Deduct Value Unused (Deferred Charge)	40.00	3.00				
Insurance (Cost)	96.00					
Deduct Value Unexpired (Deferred Charge)	94.68	1.32				
Collection & Exchange		.75	46	07		
Net Profit			2,517	51		
			2,653	90	2,653	90

Illustration No. 51

After you have entered this Statement in your Financial Statement Blank, copy it in the "Account" form.

§ 100. Statement of Assets, Liabilities and Capital. You have now prepared a Trading and Profit and Loss Statement for Mr. Geo. Adams for the accounting period ending May 31st, 19 . During this time Mr. Adams has made a gross profit of $2,653.90. The gross profit is the profit made on trading before any expenses have been deducted. During this accounting period, it has cost Mr. Adams a considerable amount to conduct his business. These expenses were as follows:—Selling Expenses, $60.00; Warehouse Expenses, $30.32; General Administrative Expenses, $46.07; Total, $136.39. When this total is deducted from the gross profit we get the *actual* or *net profit* which is $2,517.51.

Mr. Adams' wealth is now represented by his original capital invested, $10,000.00, and his net profit $2,517.51. His total present capital or present worth is, therefore,

$10,000.00 plus $2,517.51—$12,517.51. Let us proceed to show where this capital is now distributed. This is shown by a Statement of Assets and Liabilities.

Make a statement of Assets, Liabilities and Capital for George Adams on May 31st, 19 , (statement form).

This Statement will be exactly the same as those previously prepared, with the addition of the Assets represented by unused materials which are called "Deferred Charges." Check each item as you enter it from your Trial Balance to your Statement with a "B" meaning Balance Sheet. Your Statement should appear as follows:—

GEORGE ADAMS
STATEMENT OF ASSETS, LIABILITIES & CAPITAL
on May 31, 19 .

ASSETS					
Cash		7,853	93		
Accounts Receivable		6,991	50		
Merchandise Inventory		19,709	40		
Deferred Charges:-					
Office Supplies on hand	40.00				
Warehouse Supplies on hand	10.00				
Insurance Unexpired	94.68	144	68	34,699	51
LIABILITIES & CAPITAL					
Deduct Accounts Payable				22,182	00
Difference being Present Capital				12,517	51
Present Capital Represented by:-					
Original Capital	10,000.00				
Net Profit or Added Capital	2,517.51				
	12,517.51				

Illustration No. 52

§ **101. Net Profit** is the actual gain resulting from the employment of capital after all deductions have been made.

§ **102. Net Loss** is the opposite of Net Profit and is the amount by which the total costs of conducting a business exceeds the profits for a given period.

When Mr. Adams has this Statement put before him he will reason as follows:—

"I invested $10,000.00 on Jan. 1st. Since that time I have by trading made a gross profit of $2,653.90. My expenses have been $136.39, therefore my net profit is $2,517 51. I am now worth $12,517.51. Where is this wealth? I have cash $7,853.93; goods on hand, $19,709.40; debts owing to me, $6,991.50, and unused materials valued at $144.68. But I owe $22,182.00. This $22,182.00 becomes due within thirty days since all my goods were purchased on terms of thirty days net. My available cash is only $7,853.93, and all I can hope to collect from customers is $6,991.50. The total amount, therefore, which I can count on getting to pay my debts is $14,845.43. Even if I am able to make all my collections, I will not be able to pay my debts when they fall due, and should my creditors insist on my paying my debts on due dates, I shall be compelled to borrow money. If I have difficulty in borrowing I may be financially embarrassed, and even with a prosperous business, might be compelled to throw myself on the mercy of my creditors and ask for an extension of time. I would then be considered an "Insolvent." I have been over-buying. I must push my sales and be more careful in the future."

§ **103. A Person is Insolvent** who is unable to pay his debts as they become due or whose liabilities exceed his available assets. He is not, however, a *Bankrupt* until he has been so declared by the Court.

Exercises in Financial Statements.

¶ 1. From the following Trial Balance and Inventories make:—

1st. A Trading and Profit and Loss Statement ("Statement" Form and "Account" Form).

2nd. A Balance Sheet ("Statement" Form and "Account" Form).

Samuel Henderson.

TRIAL BALANCE.

December 31st, 19 .

	Dr.	Cr.
Capital		$25,000.00
Purchases	$16,000.00	
Sales		21,000.00
Accounts Receivable	12,000.00	
Accounts Payable		9,000.00
Cash	25,835.00	
Selling Expenses:—		
Travellers' Salaries	300.00	
Advertising	50.00	
Warehouse Expense:—		
Wages	200.00	
Supplies	70.00	
General Administrative Expense:—		
Office Salaries	450.00	
" Supplies	90.00	
Collection & Exchange	5.00	
	$55,000.00	$55,000.00

Merchandise Inventory	$2,500.00
Deferred Charges:—	
Advertising Materials	30.00
Warehouse Supplies	60.00
Office Supplies	75.00

¶ 2. Prepare a Trial Balance, a Trading and Profit and Loss Statement ("Statement" and "Account" Form) and a Balance Sheet ("Statement" and "Account" Form) from the following data taken from the books of Manning & Jackson, Merchants, on Dec. 31st, 19 :—Accounts Receivable, $17,500.00; Capital, $15,000.00; Accounts Payable, $12,750.00; Sales, $24,200.00; Merchandise Inventory on December 31, present year, $1,800.00; Cash, $6,000.00; Purchases, $25,800.00; Salesmen's Salaries, $2,200.00; Office Salaries, $175.00; Warehouse Salaries, $125.00; Office Supplies, $40.00; Warehouse Supplies, $36.00; Collection and Exchange, $10.00; Office Postage, $15.00; Warehouse Postage, $9.00; Warehouse Supplies on hand at cost, $16.00; Office Supplies on hand at cost, $32.00; Insurance, $40.00; value of Insurance Premium attributable to past accounting period, $10.00; balance, $30.00, attributable to the succeeding accounting period

Exercises in Bank Reconciliation Statements.

Prepare the following in your Exercise Book or Financial Statement Blank:—

1. Make a Bank Reconciliation Statement from the following data, arranging the outstanding checks numerically:—Cash Balance, per Cash Book, $20,140.00; Checks outstanding, #421, $31.00; #423, $50.00; #497, $123.75; #463, $13.60; #416, $17.65. Balance as shown by Bank Pass Book, $20,376.00.

2. Bank Pass Book balance, $5,260.21; Checks outstanding: #126, $43.76; #182, $3.00; #167, $32.60; #190, $4.03; #162, $13.16; #181, $13.29. Cash Balance, per Cash Book, $5,150.37.

§ **104. Deferred Charges** are those portions of expenses incurred during a financial period which are chargeable to a succeeding period, *e.g.*, on May 25 and 26, Mr. Adams bought office supplies valued at $43. Part of these have been used, but the balance, valued at $40, is still on hand. $3.00, representing the value of used office supplies, has been entered as an operating cost in the Profit and Loss Account, but the balance still on hand is an asset to be used in some future financial period and properly chargeable to that period.

§ **105. Deferred Charges are sometimes called Expense Inventories.** In a Balance Sheet, under the heading of Deferred Charges, should be grouped such items as unused advertising materials, unused office or warehouse supplies, prepaid expenses, prepaid taxes or any other value accrued as a result of purchase of goods to be used by us in the future, or services to be given to us in connection with the future operation of the business.

Purchase Journal

Accounts Credited							Accounts Debited			Other Accounts	
Inv.	Date	Account	No.	Terms		Amount	M. Pur.	O. Supp.	W. Supp.	Acct.	Am't
19— May	1	Patterson & Co.	7	N/30	✓	3192 —	3192 —				
	1	Can. Imptg. Co.	8	N/30	✓	3712 —	3712 —				
Apr	20	Com'l Text Bk. Co.	9	N/30	✓	3150 —	3150 —				
	24	Dom. Pencil Co.	10	N/30	✓	5600 —	5600 —				
May	5	Patterson & Co.	11	N/30	✓	646 —	646 —				
	26	Com'l Text Bk. Co.	14	N/30	✓	18 —		18 —			
	26	Grand & Jones	15	N/30	✓	4 —		4 —			
	26	W. J. Gray	16	N/30	✓	12 —		9 —	3 —		
	26	Irish & Johnson	17	N/30	✓	96 —				Insurance	96 —
							20162 —	31 —	3 —		
							(L)	(L)	(L)		

Illustration No. 52A.

EXAMINATION, SECTION 7.

1. How often should deposits be made?
2. Explain the difference between a Savings and Current Bank Account.
3. Define (*a*) Bank Overdraft; (*b*) Collateral Security.
4. What effect has the wording "or order" on the transfer of a check?
5. What is (*a*) Deposit Slip; (*b*) A Bank Pass Book?
6. Write the form of endorsement which should appear on all commercial papers which are regarded as Cash.
7. When should such an endorsement be placed on such paper? Why?
8. Name the parties to a check.
9. Define Face Value.
10. Define Exchange as applied to checks.
11. What are the rates of exchange charged by Canadian Banks?
12. What are the minimum rates charged?
13. Is exchange usually charged on local checks?
14. Explain two methods of paying the exchange on a deposit.
15. Under what headings may expenses be grouped?
16. Explain two different methods of making records for expenses in books of double entry.
17. You are in charge of a set of books including Sales, Purchase, Cash and Ledger. Explain how you would proceed in posting your books and making a trial balance at the end of the month.
18. Explain fully the circuit or course of a check from the time it is drawn until it is returned to the drawer. (It is supposed that this check is issued in payment of a debt.)
19. What is done with cancelled or paid checks.
20. Explain "Outstanding Checks."
21. What is a Bank Reconciliation Statement? When is it usually made?
22. Define "Rendering Statements."
23. Define "Voucher."
24. What results appear (*a*) on the Debit side of the Ledger; (*b*) on the Credit?
25. Name the two principal Financial Statements which are usually prepared at the end of a financial period.
26. Into what two sections may one of these statements be divided?
27. What is the result shown by the Trading Statement?
28. What is the result shown by the Profit & Loss Statement?
29. What is the difference between the Total Asset and Liability called?

Section 8

THE WASTE BOOK.

§ 106. This book, sometimes though erroneously called the Day Book, is one in which before the more modern books were introduced, the first record of every transaction was made in chronological order irrespective of its nature.

19–							
Jan.	1	Bought of James Smith on acct. 40 yds. Velvet @ 6.00 240.00 20 pairs Blankets @ 15.00 300.00 540.00		540	00		
Jan.	2	Sold Henry Jones on acct. 2 prs. Blankets @ 20.00 40.00 5 yds. Velvet @ 9.00 45.00 85.00		85	00		

Illustration No. 54 The Waste Book or Day Book

THE JOURNAL.

§ 107. Journalizing. When the Waste Book was used as the book of first or prime entry, to facilitate posting to the Ledger it was necessary to use another book in which the debits and credits were arranged in a definite order. This book is called the Journal, and the process of arranging the debits and credits in a definite order for posting is called "Journalizing."

19–							
Jan.	1	Merchandise Purchases Dr. To James Smith		540	00	540	00
Jan.	2	Henry Jones Dr. To Merchandise Sales		85	00	85	00

Illustration No. 55 The Journal, illustrating Journal Entries necessary when Waste Book is used

JOURNAL WASTE BOOK OR JOURNAL DAY BOOK.

§ 108. In time the Journal and Waste Book were combined and the Journal was used not only to record the transaction but also for the purpose of Journalizing. There are illustrated on pp. 70 and 71, two different forms of Journal, one in which the transaction is recorded first and the Journal entry afterwards, and another which provides for a ruling which separates the record of the transaction from the Journal entry.

The latter of these two forms is sometimes, though erroneously, called the Journal Day Book. It is in reality the Journal Waste Book, as strictly the Day Book is not a book in which are recorded the transactions of the day. We are told by English Accountants that the Day Book, according to true bookkeeping, signifies the Sales Book in which are recorded the sales of merchandise set out in chronological or numerical order. While these sales were originally written in the Day Book or Sales Book, your past experience in this work shows that in the modern business office the Sales Book is usually formed by using

19–								
Jan.	1	John Doe commenced business this day investing as follows,– Cash $2000.00	Cash Dr. To John Doe		2000	00	2000	00
Jan.	1	Bot of Geo Bell for cash goods per invoice No. 1 $850.00	Mdse Pur Dr. To Cash		850	00	850	00
Jan.	1	Sold Robt Hall for cash,– 100 bu Wheat @ 2.00 200. 50 bu Oats @ .80 40. 240.	Cash Dr. To Mdse Sales		240	00	240	00
Jan.	2	Sold to Jas Slater on acct. 20 bu Oats @ .80 16.00 20 bu Wheat @ 2.00 40.00 56.00	Jas Slater Dr. To Mdse Sales		56	00	56	00

Illustration No. 56 The Journal Day Book, which provides separate sections for Day Book and Journal entries

the copies of the invoices. Always remember that the terms "Sales Book" and "Sales Journal" are synonymous.

§ **109. The Modern Journal.** You are now thoroughly familiar with the principle that the system of Double Entry Bookkeeping results in a debit and credit entry for every transaction. These entries must occur in the Ledger, but the first record must be made in one of many books, the nature of the transaction determining the book to be selected for each particular entry, *e.g.*, in the modern office, transactions affecting the sale of mer-

19–							
Jan	30	Robt. Smith & Co.		240	—		
		The T. Eaton Co.				240	—
		Amount posted in error to debit of The T. Eaton Co. instead of Robt. Smith & Co.					

Illustration No. 57 The Journal Ruling, which is most extensively used, illustrating the proper form of Journal Entry, with narrative or explanation written below

chandise are entered in the Sales Book, those with regard to the purchase of goods in the Purchase Book, those resulting in the receipt or payment of cash in the Cash Book, etc., but in every case the principle is the same, that when the transactions are posted every debit entry must have a corresponding credit. Each of these debit and credit entries need not be entered individually in the Ledger, but may be entered either individually or in totals. As previously explained, the modern Journal is a book ruled in such a way that a record of every transaction may be entered in it. Up to comparatively recent times the Journal was the only book for recording the prime or first entry, and in it all transactions without exception were recorded and journalized. Under this system a separate posting of each item to the Ledger was necessary, necessitating two postings for each transaction, since every transaction required a debit and credit entry. The collecting of transactions of a similar nature in one book was a great step toward saving time and trouble in posting, for it enabled the bookkeeper to enter all items affecting the same Account in one money column and to post the total instead of posting the individual items. As a result of this plan of collating entries of a similar nature, the Cash Book, Sales Book, Purchase Book and other similar books came quickly into favor, and as a result the use of the Journal was largely dispensed with, so that to-day it is kept to receive only such entries as cannot properly be made in any other book It may be well to bear in mind, however, that the other books of original entry, Sales Book, Invoice or Purchase Book, Cash Book, etc., are merely adaptations of the Journal and are in themselves really separate Journals, the form being altered to reduce the amount of clerical labor.

While the use of the Journal in the larger business offices is dispensed with except for adjusting entries, it is well for the student to remember that in some offices the Journal is still used to quite an extent. In order that the pupil may be able to meet every condition in business, an exercise on the use of the Journal as a book of original entry for all transactions is given.

§ 110. Books of Original Entry. A book of Original Entry is one in which the first record of a transaction is made.

§ 111. Principal and Auxiliary Books. Books of record may also be divided into two classes, principal books and auxiliary books. *A Principal Book* may be defined as one from which or to which posting is done, *e.g.*, the Journal (sometimes called the Journal Day Book), Cash Book, Purchase Book (sometimes called the Purchase Journal), Sales Book (sometimes called the Sales Journal or Sold Day Book), Bill Books and Ledger. *An Auxiliary Book* is a book kept for convenience or reference, but from which no posting is done. When books are kept as auxiliary books, they do not affect the work of the other books. If all records were made in the Journal and all postings done from the Journal, the Cash Book might be used as an auxiliary book in order to have in one place for easy and quick reference, a record of all cash received and paid. Under these conditions, however, no posting would be done from the Cash Book, but from the Journal only, the Cash Book being kept as an auxiliary or book of reference.

§ 112. Transfer Entries. When the Sales Book, Cash Book, and Purchase Book are kept as books of original entry, the results of these books (*i.e.*, totals of the various columns) may be posted to the ledger *directly* or by means of a journal entry. Such a journal entry is called a *Transfer Entry.* Many accountants favor making all transfers of this nature through the journal and as a result, there has arisen in many offices the use of a special journal for that purpose known as a *Transfer Journal.* When the regular journal is used for this purpose, an entry from the Purchase Book would be as follows:—Mdse. Purchases, Dr./Sundries Cr. The word "sundries" in this case, represents all the items in the Mdse. Purchases Column of the Purchase Book which have already been credited in the ledger. Only half of the journal entry would, therefore, be posted, the sundries entry being merely checked to show that it had been posted previously.

§ 113. Journalizing. In journalizing, the account to be debited is written first and the amount entered in the first money column, while the account to be credited is written on the next line about one-half inch to the right of the position of the debit entry on the

line above. The amount credited is written in the second money column. The date and *narrative* which explains the transaction may be written either above or below the journal entry. When the Journal is used as the book in which all the transactions of a business are recorded, the ruling of illustration No. 56 is preferable, for it enables the bookkeeper to make the record of the transaction and later to do the journalizing at his convenience. Since under modern conditions the Journal is seldom used to record all transactions, the style illustrated on page 71, illustration No. 57, is most frequently used in business, the journal entry being written first and the explanation following.

Exercise in Journalizing.

These entries must not be considered a part of the transactions of Mr. Geo. Adams. They are given to familiarize the student with the records which were made for such transactions in the Journal before special journals were set aside for entries of a similar nature (such as the Purchase Journal and Cash Book with which you are familiar). It is assumed that a bank account will not be opened in the ledger, that all monies received will be deposited daily, that all payments will be made by check and that all invoices for incoming goods have been duly certified by the proper authorities.

Journalize the following, leaving one line clear space between each transaction and giving a proper explanation for each entry according to illustration No. 57.

Jan. 1. R. M. Hammond commenced business investing Cash $5,000.

Jan. 1. Bought of R. J. Simpson goods for cash per invoice on file, $1,500.

Jan. 1. Bought of W. J. Emerson on terms of 30 days net, goods per invoice filed, $750.

Jan. 2. Cash Sales to-day, $45.00.

Jan. 2. Filled Orders on terms of 30 days net:
C. J. Mason, Sales Invoice No. 1, $76.00.
H. D. Moody, Sales Invoice No. 2, $47.00.
R. J. Elder, Sales Invoice No. 3, $227.00.

Jan. 3. Purchases on 30 days net, Merchandise per incoming invoice file:
W. J. Emerson, $426.00.
R. W. Gardner, $127.00.

Jan. 4. Cash Sales per Cash Register, $127.00.

Jan. 30. Cash Receipts:
C. J. Mason, $76.00.
R. J. Elder, $150.00.
H. D. Moody, $25.00.

Jan. 30. Payments:
Check No. 2 to W. J. Emerson, $500.00

Jan. 30. Salaries paid, office staff:
Check No. 3 to G. B. Wedd, $40.00.
Check No. 4 to Mary Smith, $30.00.
Salaries, warehouse staff:
Check No. 5 to David Hart, $30.00.
Check No. 6 to Samuel Snider, $25.00.

Jan. 30. Bought for cash, per invoice from Grand & Toy under date of Jan. 29th —$25.00. This invoice includes Stationery for office use, $15.00, and goods purchased for resale, $10.00.*

*A Journal entry may have one or more debits and one or more credits. Such an entry is called a compound Journal Entry.

Feb. 1. SALES The following filled orders have been returned from the shipping room for entry in your books:—C. J. Mason, Terms "Spot Cash on receipt of Invoice," $426.00; H. D. Moody, Terms 30 d., $175.00; R. J. Elder, Terms "Spot Cash on receipt of invoice," $93.75. No cash is received for these sales today.

Feb. 1. R. M. Hammond issues a check for $100.00 in favor of himself for the month of January. "Debit R. M. Hammond Salary Account."

Feb. 1. The following duly certified invoices for incoming goods have been received: —Jan. 28, R. J. Simpson, Terms 30 d., $250.00; Jan. 26, W. J. Emerson, Terms 60 d., $430.00; Feb. 1, R. W. Gardner, Terms 30 d., $247.23. All these goods were bought for resale.

Feb. 2. A duly certified C.O.D. invoice for which a check has been issued is handed to you for entry in your books. The invoice is for goods as follows: Stationery for Office, $10.00; Warehouse Wrapping Paper, $17.00; goods bought for resale, $20.00

Feb. 6. RECEIPTS. From R. J. Elder, two Express Money Orders, one for $50.00 and one for $93.75; from C. J. Mason, check, $426.00. As this cash has been received too late for deposit, you have endorsed it specifically to your bank and placed it in the safe to be deposited tomorrow.

Feb. 8. Cash Sales today, $49.73.

Feb. 8. Deposited all money on hand.

Feb. 15. R. M. Hammond has made an additional investment of $2,000.00 for which his check was received. It has been endorsed and deposited.

Feb. 15. Mr. Hammond has decided to pay salaries in cash. A check has been drawn in your favor for $125.00. You have taken it to the bank, endorsed it, secured the money and paid salaries as follows:—Office Staff, $70.00; Warehouse Staff, $55.00.

Feb. 20. You have not been doing the posting and you find that your assistant has posted the check received from R. J. Elder on Jan. 30th, $150.00, to the credit of H. D. Moody. Make the correction by journal entry.

Feb. 22. You find that your assistant when posting has also charged R. J. Elder with goods sold to H. D. Moody on Feb. 1st.

Feb. 28. Wages paid as on Feb. 15th: Office, $70.00; Warehouse, $55.00. Mr. Hammond issued a check in his own favor for salary, $100.

§ 114. Errors which a Trial Balance will not Disclose. The fact that the two columns of a Trial Balance agree does not prove conclusively that the books are correct. There are a number of errors which may be made and yet not disclosed by a Trial Balance. Some of these are as follows:—

1. The omission of an entry from both the debit and credit side of a ledger.
2. An error in invoicing.
3. Posting an amount to the wrong account although posted to the correct side of the ledger.
4. Compensating errors, *e.g.*, an error on the debit side which is balanced by a similar amount on the credit or by an incorrect posting on the credit which would effect the same result.

§ 115. Locating Errors in a Trial Balance. A Trial Balance may not agree for the following reasons:—

1. Posting an amount to the debit instead of to the credit side of an account or *vice versa.*
2. Omitting to post an item.
3. Mistakes in addition.
4. Entering in the Trial Balance an amount as a debit which appears in the ledger as a credit or *vice versa.*
5. Omitting a Balance.
6. A transposition of figures.

The amount which you "are out" may be due to any of the above errors or may be a combination of two or more errors. In the latter case the mistakes must be picked out one by one. It is well first to assume that the error is a single one and proceed to find it as follows:—

1. Look for the amount you are out. (Omission in posting or transferring balance.)
2. Look for half the amount you are out. (Posting an amount to the wrong side of the ledger.)
3. Divide the amount you are out by the figure nine. If it is divisible evenly by nine, the error is very likely to be a transposition of figures, *e.g.*, $25 posted as $52 would result in an error in your trial balance of $52 − $25 = $27, which is divisible by nine evenly. If $153 were posted as $351, the error would be $351 − $153 = $198, which is again divisible by nine.

If all these tests do not locate an error, the only method is to recheck all transferred amounts, additions and postings. Always look for errors in the Trial Balance itself before commencing the checking of the various additions and postings which may require considerable time.

§ **116. Correction of Errors.** Errors should never be corrected by erasing entries. Auditors prefer to have corrections made by a neat crossing out of each figure with the correction written neatly above. Consult your teacher for the method of making any corrections that are necessary.

EXAMINATION, SECTION 8.

1. Describe the Journal.
2. What is Journalizing?
3. Name three books which are of the nature of a Journal.
4. What is a Book of Original Entry?
5. Define Principal Books; Auxiliary Books.
6. To what extent does a trial balance prove the accuracy of your work?
7. What is a compensating error?
8. Name the errors a trial balance will not disclose.
9. Explain how you would proceed to find an error if you were "out" in your trial balance.
10. How is the Journal posted to the Ledger?
11. What method is adopted to provide easy reference at a future time, from the Journal to Ledger or *vice versa?*
12. What is "narrative" with reference to an entry made in the Journal?
13. What is a compound Journal Entry?
14. Are goods bought for resale and goods bought for use in a mercantile business recorded in the same Ledger account?
15. Is it possible to make a record for all transactions in the Journal?
16. Can a saving of time and labor be effected by passing certain transactions through books of original entry other than the Journal?
17. How is a saving of labor effected by the use of other books?
18. What transactions are usually recorded in the Journal in a modern business office in which other books of original entry are kept?
19. Explain two methods of transferring to the Ledger, the totals of the various columns in the books of Original Entry.

Section 9

Records of Mr. George Adams—(Continued)

TRANSACTIONS FOR THE MONTH OF JUNE

INWARD FREIGHT.

§ 117. All merchandise purchased by you has been from local firms or has been shipped freight or express prepaid, and consequently the goods have been delivered to your warehouse free of charge. The goods received in the succeeding exercises have come from distant points freight collect, and it will be necessary for you to pay transportation charges. To record these charges, it will be necessary for you to open a Freight Inward Account, and as the cost of freight forms part of the cost of the goods, you should consider the

Cash						Receipts			
Date		Account Cr	Memo.		Sales Discount	Sales Ledger	Cash Sales	Gen. Ledger	Deposit
19—		Bank Bal. Forward						7	7853 93
June	12	Wright W. K.				√ 200 —			
	12	Russell & Co. J. D.				√ 264 90			
	12	Morrison Robt.				√ 500 —			
	12	Moore Geo. R.				√ 300 —			
	12	King & Son A. R.				√ 100 — 1364 90			1364 90
					000 —			000 —	
						1364 90		1364 90	9218 83
							000 —	000 —	
		Balance Forward from May 31st						7853 93	
								9218 83	

Illustration No 58 Cash Book, Debit Side, illustrating one method of ruling and closing

					000 —	1364 90	000 —	000 —	
		Summary of Receipts				D			9218 83
					1364 90				
					000 —				
					000 —				
		Bal. Forward from May 31st			7853 93				
					9218 83				

Illustration No. 58A Another method of ruling and closing the Cash Book

Freight Inward as a Trading and not a Profit and Loss Account. Some bookkeepers add the cost of freight to the invoice and enter the total as the cost of the merchandise, but this plan is not recommended.

§ 118. **Invoice Costing.** Every invoice should also be "costed," that is, each item must have added to it the proper proportion of the freight charges, duty and brokerage and other expenses incurred in bringing the freight to the warehouse. If freight should arrive packed or baled in such a condition that it is not in a fit state to be put on the shelves for resale, any charge for repackaging or other expense of this nature might also properly be considered part of the cost of the goods.

In the previous exercise you have been using the simplest form of Cash Book. As you advance in your work, it will be necessary for you gradually to use the various money columns in your Cash Book for different purposes. On this

Cash

Date		Account Dr.	Memo	Ck. No.	Pur. Discount	Payments Pur. Ledger		Gen. Ledger	Checks
June 19—	2	Freight In	C.N.R.	21				✓ 2 20	2 20
"	2	" "	Dom. Tran	22				✓ 3 50	3 50
"	2	" "	Shedden	23				✓ 6 75	6 75
"	12	Coll. & Exch.	on deposit	24				✓ 1 74	1 74
"	15	Office Salaries		25				✓ 62 —	62 —
"	15	Warehouse "		26				✓ 46 —	46 —
"	15	Travellers "		27				✓ 120 —	120 —
"	15	Can. Imptg. Co.	on a/c	28		✓ 2000 —			2000 —
"	15	Com'l Text Bk. Co.	on a/c	29		✓ 1000 —			1000 —
"	30	Warehouse Sal.		35				✓ 46 —	46 —
"	30	Travellers "		36				✓ 120 —	120 —
					000 —			470 19	3152 64
						5596 —		5596 —	9218 83
							000 —	000 —	
		Cash Balance on June 30						3152 64	
								9218 83	

Illustration No. 59 **Cash Book, Credit Side, illustrating one method of ruling and closing.**

30	Travellers Salaries		36				✓ 120 —	120 —
				000 —	5596 —	000 —	470 19	3152 64
	Summary of Payments				L		L	9218 83
				5596 —				
				000 —				
				470 19				
	Cash Balance on June 30			3152 64				
				9218 83				

Illustration No. 59A

account you must commence the records of June in your Intermediate Cash Book Blank. Select your Intermediate Cash Book Blank from the blank books supplied and on pages 24 and 25 print headings neatly, in the proper columns, according to illustrations 58 and 59. If your teacher prefers that your exercises be written on exercise paper before being copied in your regular blanks, it will be necessary for you to rule a cash book similar to your Intermediate Cash Book.

In examining illustrations 58 and 59, you will notice that we have set aside certain money columns for "Cash Received." The other money columns are to accommodate the entry of items which are not cash and are for memorandum purposes, or to facilitate posting items which are not cash but which come before the bookkeeper very prominently when cash is received and therefore can be more easily recorded in, and posted from the Cash Book than from any other book of original entry.

Again, on the Payments side you have set aside certain columns in which alone you will record the *payments* of Cash. The other columns will be used to facilitate the posting of certain items which, though not cash, come before us prominently when payments are made, and therefore can be most easily and quickly recorded in the Cash Book, but in columns which designate these items as being entirely foreign to the "Cash Payments."

June 2, 19 . The following incoming invoices have been received from the receiving room. Although these invoices are *O.K.'d conditionally*, Mr. Adams has asked you to make records for them in your books as usual. Although these invoices were issued in May, they have not come up for entry in your books until June and consequently appear in this month's records.

May 26, 19 . Commercial Text Book Co., 383 Church St., Toronto, Ont., via C.N.R. Terms Net 30 days. 500 gro. Pens, Sprott's #2 @ $1.10—$550.00; 500 gro. Pens, Sprott's #1 @ $1.20—$600.00. Total—$1,150.00.

May 26, 19 . Dominion Pencil Co., 29 St. Urbain St., Montreal, Que., via C.P.R. Terms Net 30 days. 100 gro. Penholders, "Fingerfit" @ $10.00—$1,000.00; 100 gro. Penholders, "Velvet" @ $8.00—$800.00. Total—$1,800.00.

May 29, 19 . Lufkin Rule Co., 147 James St., Hamilton, Ont., via C.P.R. Terms Net 30 days. 25 gro. Rulers #136, 12″ @ $16.00—$400.00; 25 gro. Rulers #137, 15″ @ $24.00—$600.00. Total—$1,000.00.

As the above shipments have come Freight Collect, Mr. Adams has advised you that checks for Inward Freight have been issued as follows:—

For the Commercial Text Book Co.'s shipment, check No. 21 in favor of Canadian National Railways, $2.20. (Enter in General Ledger Column.)

For the Dominion Pencil Co.'s shipment, check No. 22 in favor of the Dominion Transport Co., $3.50.

For Lufkin Rule Co.'s shipment, check No. 23 in favor of Shedden Forwarding Co., $6.75.

Make the necessary entries in the Cash Book charging Freight Inward. Commence at the top of a clear page in making these entries.

The receiving room has reported in regard to the last shipments of goods received, as follows:—

Dominion Pencil Co.:—Velvet Penholders were 10 gro. short.

Lufkin Rule Co.:—All goods received in this shipment were of decidedly inferior quality and finish. Edges were not smooth and goods show indication of being packed before the varnish was dry.

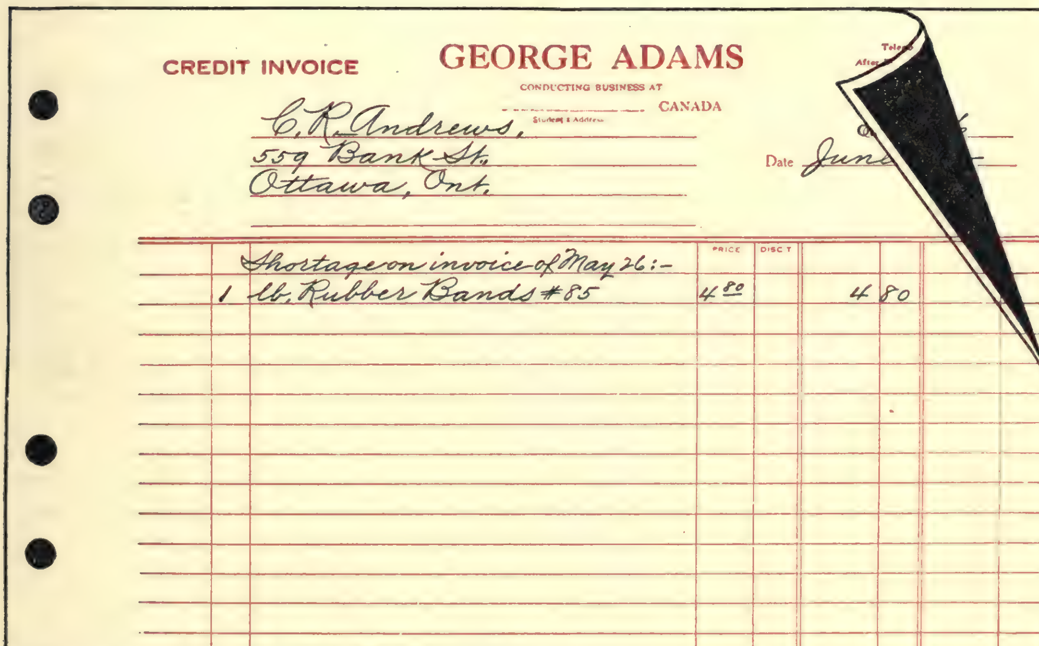
The clerk who checks calculations on invoices has reported to you that the Commercial Text Book Co. have overcharged 10c. per gross on Pens #1.

Write a letter to each of the above firms. Ask for a Credit Note from the Lufkin Rule Co. for 10 per cent. on the value of the invoice. Ask for Credit Notes from the other two firms for shortage and overcharge. Have the letter certified by your teacher.

SALES REBATES, AND ALLOWANCES.

§ **119. Credit Notes or Credit Invoices Given.** It sometimes occurs that customers upon receiving goods find that through some error, the goods received do not correspond with the invoice. This may be the result of an error in the shipping room or in the office. Should there be a shortage, an additional shipment might be made, or at the request of the customer an adjustment of the account might be made by giving credit for the shortage. Should an adjustment of any nature be required either for shortage, goods damaged, error in invoicing, incorrect prices charged or any other reason, this adjustment is accomplished by issuing a "Credit Note," sometimes called a "Credit Invoice" or "Credit Bill." A Credit Note is put through the office exactly the same as an order, but instead of being typed or written on a regular invoice form, a special credit invoice is used, which, to distinguish it from regular invoices, is printed in different colored ink, usually red. The paper used for the duplicate should also be a special color to make it easily distinguishable. All the Credit Invoices given are posted to the credit of the proper personal accounts, the amounts recapitulated on a special space on the recapitulation sheet, and the total of such allowances posted to an account called "Sales Rebates, and Allowances." The total of this account will be deducted from the Merchandise Sales Account at the end of the financial year to obtain the amount of net sales for the year. If the Credit Note is issued for goods returned, a special account is sometimes kept for "Merchandise Returned" or "Returns Inward."

In a business of any magnitude the duplicates of Credit Notes would be kept in separate binders known as "Sales Rebates and Allowances Binder." It is not unusual to have a binder for Sales Rebates and Allowances and another for Returns Inward.



CREDIT INVOICE GEORGE ADAMS

CONDUCTING BUSINESS AT ______ CANADA

C. R. Andrews,
559 Bank St.,
Ottawa, Ont.

Date June

			PRICE	DISC T		
		Shortage on invoice of May 26:-				
	1	lb. Rubber Bands #85	4.80		4	80

Illustration No. 60 **Credit Note or Invoice**

Mr. Adams has instructed you to issue the following Credit Notes:—

June 3, 19 . C. R. Andrews, 559 Bank St., Ottawa, Ont. Credit Note No. 36. Allowance made on invoice of May 26th for shortage, 1 lb. Rubber Bands @ $4.80—$4.80.

June 3, 19 . Robert Duncan, Hamilton, Ont. Credit Note No. 37. Shortage in Invoice of May 26th, 1 gro. Penholders, "Fingerfit" @ $15.00—$15.00.

June 3, 19 . A. C. Graham & Co., Main St., Winnipeg, Man. Credit Note No. 38. Goods damaged in casing, Invoice of May 29th—$6.00.

Make these Credit Notes on Credit Note blanks which are printed in red ink. Number and file them exactly the same as the invoices. When recapitulating Sales & Credits at the end of the month, these Credit Notes must be entered on the Recapitulation Sheet in the column marked "Credit Bills."

PURCHASE REBATES, AND ALLOWANCES.

§ **120. Credit Notes Received.** When an allowance is made to us on goods purchased, owing to shortage, error, or goods returned by us, a Credit Note is received. A Credit Note so received should be O.K.'d by a proper authority. In a large concern where a number of Credit Notes are received every month, a special Purchase Rebates and Allowance or Returns Outward Book is kept in which these Credit Notes are entered. If the number received does not warrant the use of a special book, they may be kept in a special section of the Purchase Book, and if very few are received, they may be entered in the Journal. In entering these Credit Notes, great care must be taken to make the reverse entry to that which was made when the invoice was received. The firm from whom the Credit Note was received must be charged or debited, and the account which was debited when the goods were received must now be credited with the allowance. Since most of the Credit Notes received are adjustments on Merchandise Purchases, instead of crediting this account, it is customary to record these credits in a special account called "Purchase Rebates and Allowances," and at the end of the year to deduct the total of this account from the Merchandise Purchases Account to show the true cost of Merchandise Purchases.

If the number of entries are sufficient to warrant it, a record of goods returned by us is frequently kept in a "Returns Outward Book."

Mr. Adams has informed you that as a result of your letters written on June 2nd, Credit Notes have been received as follows:—

June 7. Dominion Pencil Co. Shortage on Shipment No. 30476, May 26, as follows: 10 gro. Penholders, "Velvet," @ $8.00—$80.00.

June 7. Commercial Text Book Co. Overcharge on invoice of May 26. 500 gro. No. 1 Pens invoiced @ $1.20 instead of $1.10—500 gro. @ 10c.—$50.00.

June 8. Lufkin Rule Co. Adjustment on price of goods shipped May 29—$100.00.

Enter these in the Journal by making a proper memorandum or narrative and journalizing each. Make these entries on a clear page in the Journal so that they may be kept separate from the journalizing exercises now in the Journal which have nothing to do with the business or records of George Adams.

June 12. *Cash Receipts.* W. K. Wright, check, $200.00; Enter in "Sales Ledger" Column. J. D. Russell & Co., check, $264.90; Robert Morrison, check, $500.00; Geo. R. Moore, check, $300.00; A. R. King & Son, check, $100.00.

June 12. Deposit all cash on hand. Exchange on checks: 25c, 33c, 63c, 38c, 15c. Issue a check to Mr. Adams who paid the exchange when depositing. This unusual procedure will be corrected in the following section when the Petty Cash Book is introduced. *Enter the total exchange paid in the General Ledger column.*

June 15. *Cash Payments.* Office Salaries Check #25 is issued for total amount, $62.00. Warehouse Salaries, Check #26, $46.00. Travellers' Salaries, Check #27, $120.00. *Enter these payments in the General Ledger column.* Canadian Importing Co., $2,000.00. Commercial Text Book Co., $1,000.00. Dominion Pencil Co., $1,000.00. Irish & Johnson, $96.00. Lufkin Rule Co., $500.00. Patterson & Co., $1,000.00. *Enter these payments in the Purchase Ledger column.*

The following Filled Orders have been received from the Shipping Room:—

June 20, 19 . C. R. Andrews, 559 Bank St., Ottawa, Ont., via C.P.R. Terms Net 30 days. 50 Speller, Canadian Business, @ 80c; 2 gro. Rulers 15" #137, @ $32.00; 4 lb. Rubber Bands #85, @ $4.80.

June 20, 19 . W. K. Wright, 427 Hastings St., Vancouver, B.C., via Dominion Express Collect. Terms Net 30 days. 10 gro. Penholders, "Velvet," @ $12.00; 15 gro. Penholders, "Fingerfit," $15.00.

June 20, 19 . J. D. Russell, 124 St. Catherine St., Montreal, Que., via Canadian Express Collect. Terms Net 30 days. 10 gro. Pencils #21B. @ $12.00; 6 gro. Pencils #21 HB. @ $12.00.

June 20, 19 . Robert Morrison, 42-18th St., Edmonton, Alta., via C.P.R. Terms Net 30 days. 20 doz. Paste Stafford W.W. @ $3.20; 10M. Paper Fasteners S2 @ $2.40; 5M. Paper Fasteners S1 @ $2.40; 2 doz. Inkstands #712 @ $30.00; 3 Cash Book #412, 500 pp., @ $4.50.

June 20, 19 . A. R. King & Son, 149 Government St., Victoria, B.C., via C.P.R. Terms Net 30 days. 20 Arithmetic, New Method, @ $2.40; 2 doz. Inkstands #712, @ $30.00; 5 gross Pens, Sprott's #2, @ $1.60; 1 gross Pencils, #21 HB., @ $12.00.

June 20, 19 . Robert Duncan & Co., Hamilton, Ont., via Dominion Express Collect. Terms Net 30 days. 25 gro. Pens, Sprott's #1, @ $1.60; 10 gro. Pens, Sprott's #2, @ $1.60; 15 gro. Pens, Sprott's #3, @ $1.60; 5 gro. Pens, Sprott's #10, @ $1.60; 125 Speller, Canadian Business, @ $0.80.

June 30. *Payments.* Office Salaries, Check #34, $62.00; Warehouse Wages, Check #35, $46.00; Travellers' Salaries, Check #36, $120.00.

Have all your entries checked by your teacher. Recapitulate the Sales & Credits entering the credits in the proper place on the Recapitulation Sheet. Show the totals in lead pencil. Show the totals of Purchase Book and Cash Book in small lead pencil figures as previously instructed. Have all your totals checked by the teacher. Balance and rule the Cash Book according to instruction below.

Ruling and Balancing the Cash Book. The ruling and balancing of the Cash Book becomes more complicated when a number of special columns are used. First, have the totals and the cash and bank balances verified by the teacher. The Bank Balance and the Cash Balance as shown in your Cash Book are not always alike nor are either of them likely to be the Bank Balance as shown in your Bank Pass Book at the end of the day or month. In the Cash Book is recorded all the cash received and paid, therefore the balance of the Cash Book shows the only true balance of cash. In the bank columns are entered all deposits and checks issued, therefore the balance as shown by the bank columns is the true balance which stands to your credit in the bank. If, therefore, cash had been received too late in the day for deposit, the Cash Balance would necessarily be greater than the bank balance by the amount of cash *on hand* or *in safe.* The Bank Pass Book balance as you already know, differs again from each of the other two as it shows the amount standing to your credit in the bank but makes no provision, as does the Cash Book, for checks issued and not yet presented for payment. Remember, therefore, that the Cash Balance, Bank Column Balance and Bank Pass Book Balance may each be represented by different amounts and yet each be correct. If the Cash Balance and the Bank Balance per Cash Book are alike, it is simply because all the cash received has been deposited. If the Bank Pass Book balance happens to be the same as the other two, it is simply because every check issued by you has been presented at the bank for payment.

You should also bear in mind that in reality the Cash under the present ruling is only those columns included under "Receipts" and "Payments." In these columns and these alone are recorded all receipts and payments of cash. The other columns, viz., "Sales Discounts," "Deposits," "Purchase Discounts,"

and "Checks" have nothing whatever to do with cash or the balancing of the Cash Book. The Deposit and Check columns are used for convenience only, so that at any time the bookkeeper by comparing the total of one with the other can find the exact balance of money to his credit in the bank. The Sales Discounts and Purchase Discounts columns have not yet been used, but they, too, are for convenience only as you will learn when you come to use them and post from them.

Keeping these points well in mind, let us now dispose of the columns which do not concern cash. This is done by adding and ruling the Sales Discounts Column and the Purchase Discounts Column. As in this month no records have been made in them, let us rule them and represent the total which might have appeared had they been used by 000.00. Next let us rule and balance the Bank Columns, showing in red ink the Bank Balance in the Checks Column.

We may now proceed to balance the Cash Book. Rule the various columns as in illustration No. 58 and 59, showing the balance of May 31st on the "received" side as the last item in *black ink*. Show the True Cash Balance in the last column on the right in *red ink*. The footings are the additions of the columns slanting obliquely to the right, but *not including* any column which does not come under the heading Receipts or Payments. Such a column as already stated is not included in and has no relation to the Cash Balance or the footings of the Cash Book. You may close your Cash Book according to illustrations 58A and 59B if your teacher prefers this style of closing.

In proceeding with the work of the succeeding month, the Bank Balance should be brought down to the "Deposits" column in black ink. The Cash Balance should not be brought down until the end of the succeeding month. If it were brought down at the beginning of the month, it would be included in the addition of the column in which it appeared and as it would help to swell the amount of that column at the end of the month, it would be posted to the debit of "Cash" account in the ledger when the footing was posted. As the Cash Balance is already in the Cash Account in the Ledger, the Trial Balance would be "out" exactly the amount of the cash balance incorrectly brought down in the Cash Book.

Reconcile the balance as shown by the Bank Pass Book with the Cash Balance as shown in the Cash Book by a Reconciliation Statement similar to illustration No. 45. Enter this statement in your Cash Book or in your Financial Statement Blank.

§ 121. The Cash Book a Ledger Account. It may be well here to explain that the Cash Account is not always opened in the ledger. Some accountants prefer to consider the Cash Book itself as a ledger account for cash, and when taking a trial balance, they include in it the cash balance which is not in the Ledger. If this plan were followed no harm could come of bringing the balance of cash down below the rulings of the cash book immediately instead of at the end of the month as suggested above. The practice of considering the Cash Book as a ledger account and consequently not opening a ledger account for Cash, is one which cannot be recommended to a junior bookkeeper and it is doubtful if such a practice is advisable among even advanced students, for if this policy be adopted in regard to cash, it may be argued that it may as well apply to all other books of special record, such as the Purchase Book, Sales Book, etc. It is a better practice to consider the Ledger as the book which should show the balancing principle and periodically to carry to the ledger the results of every book of original entry.

Post from the Sales Book, Purchase Book and Recapitulation Sheet as previously instructed. Post from the Journal, opening an account in the General Ledger

for "Purchase Rebates and Allowances." Post from the Cash Book. Make a Trial Balance. Every entry should be properly checked, and all new accounts alphabetically arranged.

THE COLLEGE BANK

In Account With ...... George Adams

DATE				DEPOSITS		CHECKS	
		Bal		7905	25	30	—
June	12	Deposit	7	1364	90	2	20
						1	74
						62	—
						120	—
						12	—
						3	50
						46	—
						2000	—
						9	32
						62	—
						1000	—
						1000	—
						120	—
						1000	—
						46	—
						3755	39 B
				9270	15	9270	15

Illustration No. 61 Bank Pass Book June 30

EXAMINATION, SECTION 9.

1. Define "Inward Freight Account."
2. Does inward freight form part of the cost of goods?
3. What is meant by Invoice Costing?
4. In what account are entered records of (1) Goods returned to us; (2) Goods returned by us?
5. What is a Credit Note?
6. If returns inward and outward are very extensive, in what books would they be recorded?
7. Is a Cash Account opened in the ledger by all bookkeepers? Discuss the advantage and disadvantage of keeping a Cash Account in the Ledger.
8. Describe the forms used and the complete record made by a merchant who finds it necessary to credit a customer for a shortage in goods sold.
9. Describe the method or methods of making a record for credit given to you by a creditor for an overcharge on goods purchased.

Section 10

MEMORANDUM OF TRANSACTIONS FOR MONTH OF JULY.

CASH AND TRADE DISCOUNTS.

§ 122. **Trade Discount.** Discounts allowed on the sales or purchases of merchandise are of two different kinds. Goods sold by a wholesaler to a retailer are usually quoted at a list or catalogue price, off which a discount or series of discounts are allowed. Sometimes this list price is supposed to be the price at which the retailer would sell the goods, or it is simply a fixed price for catalogue purposes from which may be quoted a discount, the amount of which is determined by the fluctuations of the market. If such a list is used, a wholesaler's catalogue is not made obsolete by a rising or falling market, since the sales price is regulated by the discount quoted, which may be altered as occasion demands. Such a discount is called a "*Trade Discount*" and as it is always deducted on the invoice and the net selling price shown, no record of such discount need be made in the books.

§ 123. **Cash Discount.** In the terms of sale it is sometimes stipulated that a discount of from 2 to 3% is allowed for payment within a stated limit of time, such as 2% ten days, 3% thirty days or 3% sixty days. Such a discount is called a "*Cash Discount.*" When the goods arrive a record of the *total* of the invoice is made in the Purchase Book and posted to the Ledger. A record of the Cash Discount, if taken, must be made when the goods are paid for. Suppose you buy from John Brown the following bill of goods on "terms" of 30 days, 2% 10 days:—

200 S. Hats @ $2.40, less 25%	$360.00

The List Price on the above invoice is $2.40, the Trade Discount is 25%, the amount of the invoice is $360.00, the Cash Discount quoted is 2%. This $360.00 would be recorded in your books, when the goods were received, in the Merchandise Purchase Account and in the personal account of John Brown. The "Terms" are 30 days net or 2% 10 days, which means that the amount, $360.00, must be paid in thirty days, but if paid in ten days from the date of the invoice, a cash discount of 2% or $7.20 will be allowed. Days of grace are *not* allowed on an invoice.

While no record of the Trade Discount would be made, it would be necessary for you to make a record of the Cash Discount *if taken,* because John Brown was credited in your books with the total amount, $360.00, when the goods were received. When payment was made, the debt was settled in full by giving a check for $360.00 minus $7.20 = $352.80, but Brown's account must be charged with the full amount because the debt is settled in full and, so far as this item is concerned, the account must now balance. The record of the entry in the Cash Book would be equivalent to the following journal entry:—

John Brown, Dr.	$360.00	
Cash, Cr.		$352.80
Purchase Discounts, Cr.		7.20

Separate accounts must be kept for Cash Discounts allowed by us to others and those allowed by others to us. Cash Discounts allowed to others are recorded in an account called *Sales Discounts.* Cash Discounts allowed to us for prompt payment should be recorded in an account called *Purchases Discounts.*

NOTE.—In the United States the Cash Discount is sometimes called *Merchandise Discount.*

FURNITURE AND FIXTURES.

§ 124. A record of articles purchased to furnish an office or store is kept in a Furniture and Fixtures Account. Under this heading may be included office furniture, show cases, shelving, typewriters, etc. There are various methods of keeping this account but the one

which seems to find favor with practical bookkeepers is to charge the account with the original cost of all articles. If an article is sold, credit the account with the original cost of the article sold. The balance of the account will, therefore, be an asset equivalent to the original cost of the articles purchased, but as these articles depreciate in value very rapidly, the loss through depreciation is recorded by opening a Reserve for Depreciation account which is explained more fully in § 142. The value of Furniture & Fixtures must be included in the Assets. Assets of this nature are called *Fixed Assets* in contradistinction with assets acquired for the purpose of resale and the subsequent stages of their conversion into cash which are called *Current, Liquid, Floating* or *Circulating Assets*. Money expended for the purpose of creating or acquiring Fixed Assets by means of which to carry on the business, is called *Capital Expenditure*, while money spent for the purpose of carrying on the business and maintaining the Fixed Assets in proper condition is called *Revenue Expenditure*. Examples of Fixed Assets, Liquid or Floating Assets, Capital Expenditure, Revenue Expenditure will be found in Section 18, § 237.

BUYING PRICE LIST.

	List.	Discount.	Net.
Arithmetic, New Method	$3.00	20 & 20	$1.92
Cash Book, # 412, 500 pp.			3.00
Eraser, P. & P., #414	6.00	33 1/3	4.00
" Type. #420	15.00	40	9.00
Inkstand, # 712 (per doz.)	50.00	40 & 20	24.00
Ink, Commercial, 2 oz. bottles	20.00	20 & 25	12.00
" Carmine, 2 oz. bottles	25.00	20 & 25	15.00
Journal, #412, 500 pp			3.00
L.L.L. Sheets, #415			6.00
Ledger Index, 28's, Canvas Tab			2.00
Letter Book #296, 1,000 pp.			4.00
L.L. Binder #415			8.00
Paper Fastener, S1	3.00	20 & 33 1/3	1.60
Paper Fastener, S2	3.00	20 & 33 1/3	1.60
Paste, Stafford's W.W. (per gro.)			24.00
Pencils, #21 B. & HB.			8.00
Penholders, "Fingerfit"			10.00
Penholders, "Velvet"			8.00
Pens, all numbers			1.10
Rubber Bands	4.00	25	3.00
Rulers, 12″			16.00
Rulers, 15″			24.00
Speller, Canadian Business	1.00	20 & 20	.64

Mr. Adams has advised you to invoice all goods in future at list price less trade discount and to quote terms of "30 days, 2% 10 days." The list prices and trade discounts are as follows:—

SELLING PRICE LIST.

	List.	Dis.	Net.		List.	Dis.	Net.
Arithmetic, New Method	$3.00	20%	$2.40	Paper Fasteners, S1	$3.00	20%	$2.40
Cash Bk. #412, 500 pp.	6.00	25	4.50	Paper Fasteners, S2	3.00	20	2.40
Eraser, P. & P.	7.00	20	5.60	Paste, Stafford's W.W.	4.00	20	3.20
Eraser, Typewriter	15.00	20	12.00	Pencils, #21 B. & HB.	16.00	25	12.00
Inkstands	50.00	40	30.00	Penholders, "Fingerfit"	20.00	25	15.00
Ink, Stafford's Com.	20.00	20	16.00	Penholders, "Velvet"	16.00	25	12.00
" " Carmine	25.00	20	20.00	Pens, all numbers	2.00	20	1.60
Journal, #412, 500 pp.	6.00	25	4.50	Rubber Bands	6.00	20	4.80
L.L.L. Sheets, #415	12.00	25	9.00	Ruler, 12″	30.00	20	24.00
Ledger Index, 28's, Can. Tab	5.00	40	3.00	Ruler, 15″	40.00	20	32.00
Letter Book, #296	8.00	25	6.00	Speller, Canadian Bus.	1.00	20	.80
L.L. Binder, #415	16.00	25	12.00				

The following filled orders have been received from the shipping room (for prices refer to Selling Price List, pages 85 and 86):—

July 3, 19 . C. R. Andrews, 559 Bank St., Ottawa, Ont., via C.P.R. Terms Net 30 days, 2% 10 days. 100 Arithmetic, New Method, @ $3.00, less 20%—$240.00; 20 Cash Book, #412, 500 pp. @ $6.00, less 25%—$90.00; 10 gro. Eraser, P. & P., #414, @ $7.00, less 20%—$56.00; 10 doz. Inkstands, #712 @ $50.00, less 40%—$300.00. Total, $686.00.

July 3, 19 . Henry Bell & Co., 121-23rd St., Calgary, Alta., via C.P.R. Terms Net 30 days, 2% 10 days. 10 gro. Erasers, Type. #420, @ $15.00, less 20%; 10 Journals, #412, 500 pp. @ $6.00 − 25%; 20 L.L. Binders, #415, @ $16.00, less 25%; 30M. L.L. Sheets, #415, @ $12.00, less 25%; 20 L.L. Index, 28's, Can. Tab @ $5.00, less 40%. Total—$735.00.

July 3, 19 . Robert Duncan & Co., Hamilton, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 25M. Paper Fasteners, S1; 30M. Paper Fasteners, S2; 20 doz. Paste, Stafford's W.W.; 50 gro. Pencils, #21 HB.; 60 gro. Pencils, #21 B.

July 3, 19 . A. R. King & Son, 149 Government St., Victoria, B.C., via C.P.R. Terms Net 30 days, 2% 10 days. 75 gro. Penholders, "Fingerfit"; 50 gro. Penholders, "Velvet"; 50 gro. Pens, Sprott's #1; 100 gro. Pens, Sprott's #2.

July 3, 19 . Robert Morrison, 421-18th St., Edmonton, Alta., via C.P.R. Terms Net 30 days, 2% 10 days. 100 gro. Pens, Sprott's #3; 125 gro. Pens, Sprott's #10; 10 lbs. Rubber Bands #85.

July 3, 19 . J. D. Russell, 124 St. Catherine St., Montreal, Que., via G.T.R. Terms Net 30 days, 2% 10 days. 10 gro. Rulers, 12″, #136; 12 gro. Rulers, 15″, #137; 100 Spellers, Canadian Business.

July 3, 19 . Geo. R. Moore, St. John, N.B., via C.P.R. Terms Net 30 days, 2% 10 days. 50 Arithmetic, New Method; 15 Cash Book, #412, 500 pp; 10 gro. Erasers, P. & P., #414; 15 gro. Erasers, Type., #420.

July 3, 19 . A. C. Graham & Co., Main St., Winnipeg, Man., via C.P.R. Terms Net 30 days, 2% 10 days. 15 doz. Inkstands, #712; 20 Journals, #412, 500 pp.; 20 doz. Paste, Stafford's W.W.

Have the amounts of these invoices checked by your teacher and post to the Sales Ledger. When posting the sales to the personal accounts, make an entry in the "memo." or "explanation" column indicating the *terms of each sale.* Do not recapitulate the sales until the end of the month.

In the work of previous months you have been asked to post at the end of every month. This was done so that at one time you would post the items to the debit side of the ledger and the total to the credit, or *vice versa.* By following this plan for each book, you can see the debits and credits of the ledger increasing in the same proportion, thus maintaining the balance of the ledger.

You can readily understand that in actual business it would not be possible to leave the posting of the amounts affecting personal accounts until the end of the month, not only because the volume of work at that time would be too great for the bookkeeper, but also because the personal accounts must show at all times the balances due to us and by us, and at the end of the month must be posted to date, so that statements can be rushed out on the last day of the month or the first day of the succeeding month.

It is customary, therefore, to post daily the items which affect personal accounts and to leave the posting of the totals until the end of the month. You will

follow this plan in future and therefore have your invoicing checked periodically so that you may not enter in your books amounts which are incorrect.

The following properly checked and certified invoices have been received from the receiving room:—

NOTE.—*It is most important that the date of the invoice (not the date of entry) should be entered in the Purchase Book.*

July 5, 19 . Grand & Jones, your address, via Delivery. Terms Net 30 days, 2% 10 days. 1 Office Desk @ $75.00, less 33 1/3%, $50.00; 1 Office Chair @ $12.00, less 33 1/3%, $8.00. Total, $58.00. (Debit Furniture & Fixtures Acct.)

July 5, 19 . W. J. Gray, your address, via Delivery. Terms Net 30 days. 6 reams Kraft Wrapping Paper, 20 x 30-40, 240 lb. @ 12c—$28.80; 10 lb. 12-ply Cotton Counter Twine, @ $1.25—$12.50. Total—$41.30.

July 5, 19 . Canadian Typewriter Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 1 Underwood Typewriter No. 5, $150.00; 1 Remington Typewriter, No. 10, $150.00. Total—$300.00.

July 5, 19 . Canadian Typewriter Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 6 Typewriter Ribbons, Underwood Purple Copy @ $1.00—$6.00; 6 Typewriter Ribbons, Remington Blue Record, @ $1.00—$6.00. Total—$12.00.

July 6, 19 . Grand & Jones, your address, via Delivery. Terms 30 days, 2% 10 days. 2 Typewriter Desks, Style D., @ $54.00—$108.00.

July 7, 19 . W. J. Gray, your address, via Delivery. Terms Net 30 days. 2M. Letterhead, Printed @ $5.00—$10.00; 2M. Envelopes, Printed @ $4.00—$8.00. Total—$18.00.

July 7, 19 . Grand & Jones, your address, via Delivery. Terms Net 30 days, 2% 10 days. 1 Bottle Shipping Ink—$2.00; 1 Case Marking Brush, $0.50. Total—$2.50.

July 7, 19 . Canadian Importing Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 24 gro. Erasers, P. & P., #414 @ $6.00, less 33 1/3%—$96.00; 24 gro. Erasers, Typewriter, #420 @ $15.00, less 40%—$216.00. Total—$312.00 (Memo: Please note increase in price of Erasers, #420 since May 1st.)

July 7, 19 . Dominion Pencil Co., 29 St. Urbain St., Montreal, Que., via Canadian Express Collect. Terms Net 30 days, 2% 10 days. 25 doz. Inkstands #712, @ $50.00 less 40% and 20%—$600.00.

July 7, 19 . Commercial Text Book Co., 383 Church St., Toronto, via Dominion Express Collect. Terms Net 30 days, 2% 10 days. 100 Arithmetic, New Method @ $3.00 less 20% & 20%—$192.00.

July 8, 19 . Dominion Pencil Co., 129 St. Urbain St., Montreal, Que., via Canadian Express Collect. Terms Net 30 days, 2% 10 days. 25 lbs. Rubber Bands @ $4.00, less 25%—$75.00.

The receiving clerk reports this shipment 1 lb. short. Mr. Adams has written for a Credit Note. Put the invoice through in the usual way. The Credit Note will adjust the account when it is received.

July 8, 19 . Stafford Ink Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 20 gro. Ink Com'l, 2 oz. bottle @ $20.00, less 20% & 25%—$240.00.

Enter these invoices in the Purchase Book and post to the Purchase Ledger only. When posting be sure to enter in the Ledger the terms of each purchase. Do not foot the Purchase Book until the end of the month.

July 7. *Payments.* Carry the Bank Balance down to the Deposits column. Do not commence on a clear page. Canadian Express Co., Check #37, \$3.27; Dominion Express Co., Check #38, \$1.46; Canadian Express Co., Check #39, \$1.30.

July 8. *Receipts.* Do not make these entries on a clear page. Make the first entry on the first clear line. W. K. Wright, \$150; J. D. Russell & Co., \$592; Robert Morrison, \$761.50. July 9. Geo. R. Moore, \$137.50; A. R. King & Son, \$187.60; A. C. Graham & Co., \$500; Robert Duncan, \$883.00; Henry Bell, \$1,500.00; C. R. Andrews, \$664.90.

Post all items affecting personal accounts. Rule all accounts that balance.

July 9. Deposit all cash on hand. Exchange \$6.49 is paid by Mr. Adams. Make a check in his favor for this amount. The checks received on July 8th came to hand too late to be deposited on that date.

July 10. Mr. Geo. Adams makes an additional investment of \$4,000.00 for which he has given you his check.

Deposit all cash on hand. No exchange. Why?

July 10. A Credit Note is received from Dominion Pencil Co. for shortage of 1 lb. Rubber Bands @ \$3.00. *Post.*

July 13. *Receipts.* J. D. Russell & Co., \$689.92, in full of invoice of July 3, less discount \$14.08; Robert Duncan, \$1,485.68, in full of invoice of July 3, less discount \$30.32; C. R. Andrews, \$672.28, in full of invoice of July 3, less discount \$13.72. (Enter the net amounts received in the Sales Ledger column and the discount in the "Sales Discount" column.)

July	13	Russell J. D.			14	08	689	92						

Deposit all cash. Exchange paid by check #41, \$3.69.

July 15. *Receipts.* Robert Morrison, check dated July 13th, \$399.84, in full of invoice of July 3, less discount; A. R. King & Son, check dated July 13th, \$1,925.70, in full of invoice of July 3, less discount. *Post.*

Deposit all cash as usual. Exchange, check #42, \$2.91.

July 15. *Payments.* Travellers' Salaries, \$120.00; Office Salaries, \$62.00; Warehouse Salaries, \$46.00; Office Postage, \$5.00; Warehouse Postage, \$6.00.

July 15. *Payments.* (Enter these in Purchase Ledger column and the discount, if any, in the "Purchase Discount" column.) Stafford Ink Co., \$480.00; Canadian Importing Co., \$5,094.00; Commercial Text Book Co., \$3,268.00; Grand & Jones, \$169.13 (invoices for \$58.00, \$108.00 & \$2.50 (less 2%, \$3.37) plus invoice for \$4.00 net); Canadian Typewriter Co., check for \$305.76, in full of account less discount \$6.24. *Post items affecting personal accounts No further direction will be given in regard to this matter.*

July	15	Grand & Jones		51	3	37	169	13					169	13

July 17. *Payments.* Canadian Importing Co., check for \$305.76, in full of account less discount; Commercial Text Book Co., check for \$188.16 in full of account less discount.

The following filled orders have been received from the shipping room:—

July 25, 19 . John Holt, Brockville, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 100 Arithmetic, New Method; 10 Cash Book, #412, 500 pp.; 10 doz. Inkstands, #712; 10 Journal #412, 500 pp.; 50 gro. Penholders, "Fingerfit."

This is a new account. Mr. Adams advises that your traveller has forwarded a very good report on this new account but as you do not find any rating for this firm in your R. G. Dun & Co. Reference Book, you are to write a letter to R. G. Dun & Co., Toronto, asking for a special report on the financial standing of this firm. Have the letter certified by your teacher.

July 25, 19 . J. D. Russell, 124 St. Catherine St., Montreal, Que., via C.P.R. Terms Net 30 days, 2% 10 days. 40 L.L. Binder #415; 50M. L.L. Sheets #415; 50 L.L. Index, 28's, Can. Tab.

July 25, 19 . Robert Duncan & Co., Hamilton, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 50M. Paper Fasteners, S1; 40M. Paper Fasteners, S2; 30 doz. Paste, Stafford's W.W.; 50 gro. Pencils, #21 HB ; 75 gro. Pencils, #21 B.

July 25, 19 . C. R. Andrews, 559 Bank St., Ottawa, Ont., via C.N.R. Terms Net 30 days, 2% 10 days. 75 gro. Penholders, "Fingerfit"; 50 gro. Penholders, "Velvet"; 100 gro. Pens, Sprott's No. 1; 200 gro. Pens, Sprott's No. 2.

July 25, 19 . Robert Morrison, 421-18th St., Edmonton, Alta., via C.P.R. Terms Net 30 days, 2% 10 days. 25 gro. Rulers, 12″ #136; 25 gro. Rulers, 15″ #137. Job Lot, Special 10% discount, $140.00.

July 25, 19 . A. R. King & Son, 149 Government St., Victoria, B.C., via C.P.R. Terms 30 days, 2% 10 days. 10 gro. Ink, Commercial, 2 oz. bottles; 100 Speller, Canadian Business; 50 gro. Penholders, "Fingerfit"; 100 gro. Penholders, "Velvet."

July 29. Reports have been received of the following shortages in shipments of July 22nd:—

Robert Duncan & Co., Hamilton, Ont. 2M. Paper Fastener S1 @ $2.40; C. R. Andrews, Ottawa, Ont., 1 gro. Penholders, "Fingerfit" @ $15.00.

Make Credit Notes accordingly.

July 31. Mr. Adams has not drawn any salary from the business up to this date and has now arranged to withdraw for personal use upon a salary basis $150.00 per month.

July 31. *Payments.* Office Salaries, $62.00; Manager's Salary, $150.00 (Charge Geo. Adams' Salary Account); Warehouse Wages, $46.00; Travellers' Salaries, $120.00; C.O.D. Bill for Rubber Stamps for Office, $2.20.

July 31. *Receipts.* The following checks have been received on the 3.30 mail. They cannot be deposited to-day. A. C. Graham & Co., $458.80; Henry Bell & Co., $229.60.

Have your work checked by the teacher as usual. Post from the Sales Book, Purchase Book and Journal as usual.

Balance the Cash Book. Make a Reconciliation Statement. Post from the Cash Book, noting the following instructions:—

If you have followed the instructions previously given, you have already posted from the Cash Book all items which affect Personal Accounts. Post the total of the "Sales Discounts" column to the debit of an account which you must now open in your General Ledger called Sales Discounts. Post the total of the "Sales Ledger Accounts" column to the debit of Cash. Post the items in the "General Ledger" column to the credit of the various accounts and the total of this column to the debit of Cash. Post the total of the Purchase Discounts column to the credit of Purchase Discounts Account (this is a new account which you must open in your General Ledger). Post the total of the Purchase Ledger column to the credit of Cash. Post the individual items of the General Ledger column to the debit of their respective accounts and the total to the credit of Cash.

This posting maintains the balance of your Ledger. If you analyse the posting you have just done together with the posting done during the month from the Cash Book, you will find that the Ledger is debited and credited as follows:—

Received Side:—first column, Sales Discounts, Dr. (total), Personal Accounts, Cr. (items); second column, Cash, Dr. (total), Personal Accounts, Cr. (items); fourth column, Cash, Dr. (total), General Ledger Accounts, Cr. (items).

Payment Side:—first column, Individual Accounts, Dr. (items), Purchase Discounts, Cr. (total); second column, Individual Accounts, Dr. (items), Cash, Cr. (total); fourth column, Individual Accounts, Dr. (items), Cash, Cr. (total).

The Deposits and Checks columns are not posted. They are kept simply to indicate at any time the amount of cash in the bank.

Make a trial balance.

THE COLLEGE BANK

In Account With .... George Adams

Date				Deposits	Checks	Checks	Checks
		Bal		3755 39	96 —	1334 38 F	
July	9	Dep	F	5376 50	500 —	305 76	
	10	"	F	4000 —	1 30	188 16	
	13	"	F	2847 88	3 27	6 49	
	15	"	F	2325 54	2 91	5094 —	
					120 —	3268 —	
					6 75	62 —	
					62 —	120 —	
					5 —	150 —	
					480 —	46 —	
					1 46		
					3 69		
					6 —		
					46 —	7730 52 B	
					1334 38		
				18305 31		18305 31	

Illustration No. 65 George Adams' Bank Pass Book, July 31

EXAMINATION, SECTION 10.

1. Define (*a*) Trade Discount; (*b*) Cash Discount.
2. Do trade discounts affect the records in our ledger? Do cash discounts? Under what conditions do cash discounts affect our ledger accounts?
3. What is the name of the account in which is recorded (*a*) Discounts allowed to us on goods bought; (*b*) Discounts allowed to others on goods sold?
4. Define Furniture & Fixtures Account. Does this account represent an asset or liability?
5. To what class of assets does Furniture & Fixtures belong?
6. Name another class of assets and give several synonymous terms for same.
7. What is Capital Expenditure?
8. What is Revenue Expenditure?
9. Should posting to personal accounts be done daily, weekly or monthly? Give reasons for your answer.
10. Explain how a record of the Purchase & Sales Discounts can most easily be kept to facilitate posting.

Section 11

MEMORANDUM OF TRANSACTIONS FOR MONTH OF AUGUST.

CASH SALES.

§ 125. All the sales you have made up to this point have been "credit" sales, *i.e.*, sales "on account," or sales the payment for which has been deferred to some future date, and while these form the majority of the sales in business, it is a fact that some sales are made for cash. Cash Sales may be divided into two classes: first, those made to customers who have opened accounts in our books; second, small cash sales to persons to whom we do not sell frequently and for whom we do not wish to open accounts.

Very little explanation need be made in regard to the records necessary for cash sales made to customers. For the sake of reference, it is desirable to have a full record of these sales in the customer's account in the Ledger. The best plan to follow is to make two separate transactions, one for the sale, charging the amount to the customer in the regular way, and another for the amount received, crediting the customer for this amount in the Cash Book. This gives a complete record of the transaction. This procedure is desirable, because it frequently happens that when a remittance is made which is intended by the customer to equal the exact amount of the bill, the sum so received is either too great or too small. If the customer is charged with the exact amount of the sale and credited with the exact amount remitted, his account will then show the difference in his favor or against him, should the amounts not correspond.

When sundry cash sales are made to those for whom we have not opened accounts, the total of these sales for the day is usually put through the cash receipts as a lump sum, Merchandise Sales Account being credited. No other entry is necessary unless for stock or *Perpetual Inventory* purposes it is necessary to keep a record of all goods bought and sold, so that at any time the exact amount of any or all lines of stock on hand may be readily ascertained. For the purpose, therefore, of keeping a Perpetual Inventory, it is absolutely necessary that a detailed record of every cash sale be made. When this record is required the cash sales for the day, if a special book or binder for cash sales is not kept, are listed on a special order form and are entered on a charge sheet so that the charge sheets may still retain their numerical order corresponding with the order forms. Such a charge sheet would be filed in the Sales binder in its proper order *for reference only*, and, so that the amount of such a charge sheet would *not* be entered on the Recapitulation Sheet, the charge sheet should be stamped with a rubber stamp as follows, "*Cash Sale.*" The bookkeeper when posting or recapitulating sales would leave this amount out. The amount of the cash sales would be entered daily in the Cash Book in a special column headed "Cash Sales," and the total of that column posted at the end of the day, week or month to the debit of "Cash" Acct. and to the credit of "Mdse Sales" Acct.

§ 126. Another Method of Treating Cash Sales is to open an account in the Sales Ledger to represent all the customers' purchases for cash, entitled "Cash Sales." This account may be debited for all cash sales as they are made and credited with the same amount from the Cash Book. The first method is the one you are to adopt in your work.

PETTY CASH BOOK.

§ 127. The Imprest System. Although it is admitted that all the cash received should be deposited and all payments made by check, yet the strict adherence to this rule would necessitate the issuing of checks for very small amounts to defray insignificant expenses such as telegrams, etc. In order to overcome the necessity of issuing these small checks and to provide funds for these expenses, a check may be issued for a definite sum, say $50.00. The amount of the check issued for this purpose will of course be determined by the bookkeeper. This amount is entered in the Cash Book as "Petty Cash Fund," and for this fund an account is opened in the General Ledger. This check is then cashed

and the money kept in a separate till or cash drawer. This Petty Cash Fund account remains on the General Ledger at the same figure until the end of the year, when the last lot of disbursements *may*, if desired, be charged against this fund and the balance of petty cash restored to the General Cash Book. As this is not usually done, the Petty Cash Fund usually stands open at the end of the financial year. In order to provide for a record of the disbursements from this fund, a Petty Cash Book or Petty Cash Sheet is kept, usually of a columnar style. See illustration No. 66. Whenever possible a voucher should be kept for each item of expense, and when the fund is almost exhausted these vouchers are filed and another check is issued for the exact amount of the vouchers, which brings the fund up to its original amount, $50.00. The totals of the Petty Cash Book or Petty Cash Sheet at this time may be transferred to the Ledger in one or three ways. They may be either journalized, posted direct from the petty cash sheet or entered into the General Cash Book. The latter of these methods is the one which is recommended, because the Cash Book is really the place in which all payments of cash should be entered. When these items are entered in the Cash Book, the Petty Cash Book or Petty Cash Sheet becomes merely a memorandum book in which is kept a list of small expenditures, the totals of these expenditures, as shown by the money columns, being entered at the end of the month in the General Cash Book and from that book are posted to the proper accounts in the Ledgers. A check at that time is issued for the total petty expense for the month which brings the Petty Cash up to its original figure. When the results are posted direct from the petty cash sheets the Petty Cash Book becomes a principal book and is not merely a memorandum or auxiliary book.

FORM 218

Petty Cash Sheet

RECEIPTS				PAYMENTS			ANALYSIS OF PAYMENTS						OTHER ACCOUNTS	
DATE		NO	AMOUNT	DATE		AMOUNT	VOU NO	GEN EXP	FREIGHT IN	OFF SUPP	WAREH SE SUPP	EXCHANGE	ACCOUNT	AMOUNT
19– Aug	1	60	50 —	Aug	1	86						86		
					2	1 —							Delivery	1 —
					2	75				75				
					2	2 20		2 20						
					2	45				45				
					2	25					25			
					2	25		25						
					2	1 50		1 50						
					2	45						45		
					4	8 87						8 87		
					24	75								
					24	1 —							Delivery	1 —
					24	60		60						
					24	2 —					2 —			
					26	1 36			1 36					
					26	2 20			2 20					
						41 63		14 45	5 87	1 60	3 85	12 86		3 —
				Bal		8 37								
			50 —			50 —								

RECEIVED FROM .... THE SUM OF .... DOLLARS FOR PETTY CASH DISBURSEMENTS FOR MONTH OF .... ACCORDING TO VOUCHERS ATTACHED ....

THE COMMERCIAL TEXT BOOK CO TORONTO

Illustration No. 66

The word "imprest" means "a loan." As the fixed sum is loaned or set aside from the regular cash to provide this fund, such a plan is known as the "Imprest System." When this plan is followed the petty cash balance is not taken into account when the regular Cash Book is balanced at the end of the day, week or month, but should figure in the Cash Book balance or funds available at the end of a financial period.

Bring forward to the "Deposits" column the Bank Balance of July 31st as shown in Cash Book.

August 1. Mr. Adams has issued a check for $50.00 for Petty Cash.

Debit "Petty Cash Fund" in the Cash Book. Enter the amount in the "General Ledger Sundries" column. Enter the amount also in the "Receipts" column of your Petty Cash Sheet and file the Sheet under the proper tab in your binder. This Petty Cash Sheet is a memorandum only of all expenses which are too insignificant to enter individually in the General Cash Book and which will be totalled at the end of the month and at that time entered in the General Cash Book. For this purpose a sum of $50.00 has been loaned from the general cash. A record of this imprest or loan is kept under the term "Petty Cash Fund." This check for $50.00 will be cashed and the money kept in a special cash till for small payments.

August 1. Deposit all cash on hand as shown by the General Cash Book, $688.40. Exchange, 86c. is paid out of Petty Cash till.

Make the usual entry for the deposit. Enter the Exchange in the proper columns on the Petty Cash Sheet. See illustration No. 66.

August 2. Disbursements from Petty Cash:—Carfare for Delivery Boy, $1.00; Stamp Pad for Office use, 75c; Cablegram, $2.20; Typewriter Brush for Office use, 45c; Mucilage for Warehouse, 25c; Telegram, 25c; Window Cleaning, $1.50.

Enter the above disbursements in the Payments column of the Petty Cash Sheet and show them also in the proper analysis columns. All items for which there is no special column should be entered under "Other Accounts" column and the proper account charged. All items of expense which cannot be entered under the headings, Office or Warehouse Supplies, such as Window Cleaning, should be charged to "General Expense Account" in the proper column. General Expense is a new account to be opened in your General Ledger. No entry is made in the General Cash Book for petty cash payments.

Do not open accounts for those who enclose cash with orders unless the amount remitted is not correct. In that event a record of the amount due or overpaid must be kept. Remittances with orders are usually small amounts. If the order be a large one and it is accompanied by a remittance of the exact amount required, an account for the customer should be opened so that a record of the sales to that customer may be kept. Mr. Adams is keeping a Perpetual Inventory, therefore it will be necessary to record every sale on a Charge Sheet.

Orders with Cash Enclosed.—The following orders with cash enclosed have been received:—

August 2, 19 . Charles R. Mason, 423 James St., Hamilton, Ont. Check enclosed, $24.00. Ship via Express Collect. 10 Arithmetic, New Method.

Aug. 2, 19 . Robert Watson & Co., London, Ont. Check enclosed, $12.00. Via Express Collect. 1 gro. Erasers, Typewriter, #420.

Aug. 2, 19 . William Jones, Nakusp, B.C. Express order enclosed, $3.20. Via Express Collect. 1 doz. Paste, Stafford's W.W.

Aug. 2, 19 . Russell & Brown, Winnipeg, Man. Check enclosed, $10.00. Via Express Collect. 10 Spellers, Canadian Business.

Make calculations to ascertain whether or not the amounts remitted are correct. You have found that Russell & Brown have remitted $2.00 too much. We will, therefore, deal with the other cash sales first, leaving Russell & Brown's order for the present.

Enter all that are correct individually in the Cash Book in the column Merchandise Sales. In the Explanation column, make the memo. "Cash Sale" and enter the initials or name of the customer in brackets.

Russell & Brown, through some misunderstanding have overpaid $2.00, so that it will be necessary for you to open an account for this firm or to return this amount. Mr. Adams has instructed you to open an account. Make an entry in the Cash Book crediting Russell & Brown with the amount remitted, entering the amount in the Sales Ledger Accounts column just the same as if this were a payment from a customer who had an open account previously.

Filled orders for the above cash sales have been returned to the office. Make the invoices as usual. After the word "Terms" write "Cash Enclosed" and enter the amount remitted. Receipt each invoice as follows:—

RECEIVED PAYMENT
With Thanks
Aug. 2, 19 .

George Adams.
per (your name here).

Illustration No. 67

On the duplicate of each invoice if the proper amount of cash was received, print neatly in bold letters the following:—

CASH SALE—Do not Post or
enter on Recapitulation Sheet.

Illustration No. 68

In actual business you would have a rubber stamp for this purpose.

Do not print the above wording on Russell & Brown's invoice. It will be receipted as usual, but as an account for this firm has been opened in the Sales Ledger and credited with the total amount remitted, it will be necessary for you to treat this as an ordinary sale and charge this firm with the amount of goods sold. When posting has been completed, *Russell & Brown's account will show a Credit Balance of $2.00.*

File the Charge Sheets in your Sales Book in numerical order.

Aug. 2. Sundry Cash Sales made over the counter (Legal Tender received): 1 lb. Rubber Bands, $4.80; 2 gro. Pens, Sprott's #2 @ $1.60—$3.20; 6 gro. Pens, Sprott's #10 @ $1.60—$9.60; 1 gro. Penholders, "Fingerfit," $15.00; 1 gro. Penholders, "Velvet," $12.00. Total—$44.60.

NOTE.—Legal Tender is government notes or coins that may be lawfully offered in payment of a debt.

Make an entry in the Cash Book. Make a list of these goods on a charge sheet blank without extending the items. Mark it "Cash Sales" and give it a number. This list is for Perpetual Inventory purposes only. As the items are not extended, it cannot be posted or recapitulated.

Aug. 2. This order has been received from The People's Stationery Co. with Post Office Order enclosed $9.00. Ship via Delivery. 2 Cash Book, #412, 500 pp. @ $4.50.

Credit the People's Stationery Co. for the remittance and send the order on to the shipping room to be filled. As you have an open account for this firm, this should be considered as two separate transactions, 1st, a remittance from a customer, 2nd, a sale on account.

The Filled Order as above for The People's Stationery Co. has been returned from the shipping room. Terms, Cash enclosed, $9.00. Via Delivery. 2 Cash Books, #412 500 pp., @ $6.00, less 25%—$9.00.

Make the invoice as previously directed.

Aug. 3. Deposit all cash on hand. Pay exchange, 45c, out of Petty Cash

Aug. 3. In reply to your letter with reference to the financial standing of John Holt of Brockville, the following report has been received from R. G. Dun & Co.:—

§ 128.

R. G. DUN & CO.

Financial Report on

John Holt (Not Incorporated), Brockville, Ont.

Aug. 1st, 19 .

John Holt, registered owner, Jan 19 . He is a young man of steady habits and good business ability. He was manager for the James B. Helliwell Co., Limited, retail general merchants of Montreal, and with J. W. Mallon as partner, started this business in a small way. About one year ago he purchased the interests of J. W. Mallon for some $100.000. On being interviewed now states he had on June 30th, the end of his financial year:—

ASSETS.

Quick or Current Assets:—				
1. Liquid Assets:				
a. Cash in Bank		$10,042.00		
b. Cash on Hand		2,200.00		
c. Cash Imprest Fund		100.00		
			$12,342.00	
2. Floating or Circulating Assets:				
a. Accounts Receivable	$39,500.00			
Less Reserve for Bad Debts	1,955.00			
		$37,545		
b. Bills Receivable		18,700		
c. Mdse. Inventory		45,800		
			102,045.00	
				$114,387.00
Fixed or Capital Assets:—				
1. Tangible:				
a. Land and Buildings	$13,000.00			
Less Depreciation	500.00			
		$12,500.00		
b. Furniture & Fixtures	$3,600.00			
Less Depreciation	400.00			
		3,200.00		
c. Delivery Equipment	$5,000.00			
Less Depreciation	1,000.00			
		4,000.00		
			$19,700.00	
2. Intangible:				
a. Goodwill			40,000.00	
				59,700.00
Other Assets:—				
1. Deferred Charges			$453.00	
2. Accrued Assets			27.00	
				480.00
				$174,567.00

Continued on page 96.

LIABILITIES & CAPITAL.

Floating or Current:—			
1. Accounts Payable		$22,642.60	
2. Bills Payable to Trade	$13,421.00		
3. Bills Payable to Bank	15,000.00		
		28,421.00	
4. Accrued Liabilities		93.70	
5. Prepayments or Deferred Credits		126.60	
			$51,283.90
Capital Liabilities:—			
1. Mortgage Payable			6,000.00
Surplus:—			
1. Reserve for Contingencies		$ 3,500.00	
2. Profit & Loss (Undistributed Profit)		13,783.10	
3. Capital Account		100,000.00	
			117,283.10
			$174,567.00

Total Surplus of Assets over Liabilities		$117,283.10
Liquid Surplus:—		
Total Quick Assets	$114,387.00	
Less Floating Liabilities	51,283.90	
		63,103.10

Stock insured at $50,000, Buildings at $9,000. Business for past 6 months, $124,872.

This statement is, we believe, made in good faith and is no doubt correct from his viewpoint. The valuation put on Goodwill and Real Estate is regarded as high. He has a good connection and so far as learned, has been meeting his engagements as agreed.

13080—4797.
R. G. Dun & Co.
per

Illustration No. 72

§ 129. **Liquid Surplus.** You will notice from the above statement that John Holt's Present Worth or Total Surplus of Assets over Liabilities is $117,283.10. His *Liquid Surplus*, that is, the surplus of Assets which are readily convertible into cash, over Liabilities is $63,103.10. A person's credit is usually based on the amount of his liquid surplus. If, for example, the statement of John Holt showed a total surplus of $117,283.10, which was made up of Fixed Assets of $174,567.00 composed mostly of Real Estate, mortgaged up to 50%, and a liquid surplus of about $10,000.00, you would immediately detect an inability to readily meet obligations of any extent, and you would not feel like granting him the same credit as you now do even though the total surplus in the supposed case was as great as that shown in the statement just received.

§ 130. When the invoices become so numerous that the binder will not hold any more sheets, the student may either purchase another binder which he will use as a Sales Book and in which *all* his invoices may be filed, or he may remove from the present Sales Book a number of the first invoices and file them for reference between two sheets of cardboard kept securely in place by a rubber band.

Aug. 4. *Receipts.* Checks have been received as follows:—C. R. Andrews, $2,146.20, for payment of invoice $2,190, less discount; Robert Duncan, $1,771.06, for payment of

invoice $1,807.20, less discount; A. C. Graham, $604.00; John Holt, $1,352.40, for payment of invoice $1,380, less discount; Robert Morrison, $1,234.80, for payment of invoice $1,260, less discount.

> Deposit all cash. Exchange $8.87 paid out of Petty Cash. In future Exchange will always be paid out of Petty Cash. No further direction will be given in regard to this.
>
> Post from Sales Book and Cash Book all items affecting Personal Accounts. Be careful to avoid posting the amount of any Charge Sheet which represents a Cash Sale and which is filed in your Sales Book for Perpetual Inventory purposes only. Rule each account as it balances. Always have your work checked by the teacher before posting.

Aug. 6. Filled Orders:—

Aug. 6, 19 . C. E. Mann, Collingwood, Ont. Via G.T.R. Terms Net 30 days, 2% 10 days. 25 Arithmetic, New Method; 6 Cash Book, #412, 500 pp; 6 gro. Erasers, P. & P. #414; 6 gro. Erasers, Typewriter #420.

Aug. 6, 19 . Davis & Bell, Halifax, N.S. Via C.P.R. Terms Net 30 days, 2% 10 days. 10 doz. Inkstands #712; 10 Journal #412, 500 pp.; 25 L.L. Binder #415; 25M. L.L. Sheets #415; 25 Index 28's, Can. Tabs.

Aug. 6, 19 . A. R. Dow, Brandon, Man., via C.P.R. Terms Net 30 days, 2% 10 days. 10M. Paper Fasteners S1; 20M. Paper Fasteners S2; 25 doz. Paste, Stafford's W.W.; 25 gro. Pencils #21 HB.; 50 gro. Pencils #21 B.

Aug. 6, 19 . Geo. Miller, Stratford, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 50 gro. Pencils #21 B.; 20 gro. Penholders, "Fingerfit; 40 gro. Penholders, "Velvet"; 300 gro. Pens, Sprott's #1; 300 gro. Pens, Sprott's #2.

Aug. 6, 19 . Graham & Co., A. C., Main St., Winnipeg, Man., via C.P.R. Terms Net 30 days, 2% 10 days. 50 gro. Pens, Sprott's #3; 75 gro. Pens, Sprott's #10; 10 lbs. Rubber Bands #85; 6 gro. Rulers 12" #136; 3 gro. Rulers 15" #137.

Aug. 6. Properly certified invoices for goods and services:—

Canadian Typewriter Co., via Delivery. Terms Net 30 days, 2% 10 days. 1 Bottle Typewriter Oil, $2.00; 1 Bottle Stamp Pad Ink, 75c. Total—$2.75.

Grand & Jones, via Delivery. Terms Net 30 days, 2% 10 days. (For Office Use.) 1M. Envelopes Printed, $8.00; 2 doz. Note Books @ $1.20. Total—$10.40.

W. J. Gray. Terms Net 30 days. 3 Halftones, $25.00; Artist Work, $15.00. Total —$40.00. (Charge advertising.)

Irish & Johnson. Terms Net 30 days. Premium on Policy No. 74321, in Royal Insurance Co., $8,000.00 at $12.00 per M.—$96.00. Term of Policy 1 year. Date, Aug. 1, at 12 o'clock noon.

Aug. 7. Canadian Typewriter Co. Terms Net 30 days, 2% 10 days. 1 Bichrome Underwood Typewriter Ribbon, $1.50.

Aug. 7. Grand & Jones. Terms Net 30 days, 2% 10 days. 1 Ream Kraft Wrapping Paper, 30 x 40-80—$9.60; 1 Weighing Scales #421—$47.50. Total—$57.10. (Charge Weighing Scales to Furniture & Fixtures.)

The following properly checked and certified invoices have been forwarded from the receiving room:—

Aug. 9. Commercial Text Book Co., 383 Church St., Toronto, via G.T.R. Terms Net 30 days, 2% 10 days. 300 Arithmetic, New Method @ $3.00, less 20 & 20—$576.00; 300 gro. Pens, Sprott's #3 @ $1.10—$330.00; 300 gro. Pens, Sprott's #10 @ $1.10—$330.00; 300 Spellers, Canadian Business @ $1.00, less 20 & 20—$192.00. Total—$1,428.00. (Pay Freight $1.41 out of Petty Cash.)

Aug. 9. Patterson & Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 50 Cash Book #412, 500 pp. @ $3.00—$150.00; 50 Journal #412, 500 pp. @ $3.00—$150.00; 100 L.L. Binder #415 @ $8.00—$800.00; 100M. L.L. Sheets #415 @ $6.00—$600.00; 100 Index 28's, Can. Tab @ $2.00—$200.00. Total—$1,900.00.

Aug. 9. Canadian Importing Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 24 gro. Erasers, P. & P. @ $6.00, less 33 1/3%—$96.00; 24 gro. Erasers, Typewriter @ $15.00, less 40%—$216.00; 100M. Paper Fasteners S1 @ $3.00, less 20 & 33 1/3—$160.00; 100M. Paper Fasteners S2 @ $3.00, less 20 & 33 1/3—$160.00; 200 gro. Pencils #21 HB. @ $8.00—$1,600.00; 100 gro. Pencils #21 B. @ $8.00—$800.00. Total—$3,032.00.

Aug. 9. Stafford Ink Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 20 gro. Ink, Commercial, 2 oz. bottle @ $20.00, less 20 & 25—$240.00; 100 gro. Paste, Stafford's W.W. @ $24.00—$2,400.00. Total—$2,640.00.

Aug. 9. Dominion Pencil Co., 29 St. Urbain St., Montreal, Que., via G.T.R. Terms Net 30 days, 2% 10 days. 25 doz. Inkstands #712 @ $50.00, less 40 & 20—$600.00; 200 gro. Penholders, "Fingerfit," @ $10.00—$2,000.00; 200 gro. Penholders, "Velvet," $8.00—$1,600.00; 25 lbs. Rubber Bands #85 @ $4.00, less 25%—$75.00. Total—$4,275.00. Freight, $4.80, paid by *check* in favor of Shedden Forwarding Co.

Aug. 9. Lufkin Rule Co., 147 James St., Hamilton, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 25 gro. Rulers, 12", #136, @ $16.00—$400.00; 25 gro. Rulers, 15", #137, @ $24.00—$600.00. Total—$1,000.00. Pay freight, 90c, out of Petty Cash.

Have your work checked and post from the Purchase Book all items affecting Personal Accounts.

Aug. 12. Petty Cash Payments:—Carfare (Delivery Boy), $1.00; Telegram, 25c; Charwoman, $2.00.

Cash Receipts:—

Aug. 12. An order from People's Stationery Co., your address, via "Taken." Cash Enclosed, "Express Order, $30.00." 1 doz. Inkstands #712.

An order from Geo. R. Moore, St. John, N.B., via Express Collect. Cash Enclosed, "Check $8.00." 10 Spellers, Canadian Business.

Make entries in the Cash Book. The orders have been forwarded to the shipping room to be filled. Read § 125.

Filled Orders: Sales as listed above. (People's Stationery, Geo. R. Moore.)

Make and Receipt the invoices. As these customers have open accounts these are not cash sales but are treated as credit sales. The amount of cash received has already been credited to each customer.

Aug. 12. Counter Sales, $55.80 (Legal Tender), 1 lb. Rubber Bands; 2 gro. Pencils #21 HB.; 1 gro. Pencils #21 B.; 1 gro. Penholders, "Fingerfit." (Cash Sale.)

Aug. 12. Deposit cash on hand. Exchange, 15c.

Aug. 15. *Payments.* Dominion Pencil Co., $7,642.00; Lufkin Rule Co., $1,500; Commercial Text Book Co., in full of account, $1,399.44, discount $28.56; Canadian Importing Co., in full of account, $xxxx.xx, discount $xx.xx; Stafford Ink Co., in full of account; Canadian Typewriter Co. in full of account; W. J. Gray in full of account, $111.30; Office Salaries, $62.00; Warehouse Salaries, $46.00; Travellers' Salaries, $120.00; Rogers & Co., for 2 Ton of Coal @ $12.00, delivered C.O.D.—$24.00 (charge Light, Fuel & Water Account); Electric Light Bill to July 31, $5.00; Bill for Telephone Service from July 1 to Dec. 31, $30.00 (charge Telephone); Rent, Jan. 1 to June 30 @ $50.00 per month, $300.00; Business Tax for year, Jan. 1 to Dec. 31—Assessment $4,000, rate 20 mills.

Aug 16. *Receipts.* C. E. Mann, check in full of account, $xxx.xx, discount $x.xx; A. R. Dow, check in full of account.

Deposit all cash. Exchange, $2.53 paid out of Petty Cash. Post from Sales Book and Cash Book all items affecting Personal Accounts. Always have your work checked before posting. No further direction will be given in regard to this.

Aug. 22. Filled Orders:—

Aug. 22, 19 . C. R. Andrews, 559 Bank St., Ottawa, Ont., via C.P.R. Terms Net 30 days, 2% 10 days. 25 Arithmetic, New Method; 10 Cash Book #412, 500 pp.; 10 gro. Erasers, P. & P. #414; 10 gro. Ink, Commercial, 2 oz. bottle.

Aug. 22, 19 . Henry Bell & Co., 121-23rd St., Calgary, Alta., via C.P.R. Terms Net 30 days, 2% 10 days. 20 gro. Erasers, Typewriter #420; 10 doz. Inkstands #712; 10 Journal, 500 pp. #412.

Aug. 22, 19 . Robert Duncan & Co., Hamilton, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 40 L.L. Binder #415; 40M. L.L. Sheets; 40 Index.

Aug. 22, 19 . A. C. Graham & Co., Main St., Winnipeg, Man., via C.P.R. Terms Net 30 days, 2% 10 days. 25M. Paper Fasteners S1; 40M. Paper Fasteners S2; 50 gro. Pencils, #21 HB.; 1M. L. L.L. Sheets #415.

Aug. 22, 19 . John Holt, Brockville, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 50 gro. Pencils #21 HB.; 60 gro. Pencils #21 B.; 75 gro. Penholders, "Fingerfit."

Aug. 22, 19 . A. R. King & Son, 149 Government St., Victoria, B.C., via C.P.R. Terms Net 30 days, 2% 10 days. 80 gro. Penholders, Velvet; 200 gro. Pens, Sprott's No. 1; 250 gro. Pens, Sprott's #2.

Aug. 22, 19 . Geo. R. Moore, St. John, N.B., via C.P.R. Terms Net 30 days, 2% 10 days. 50 gro. Pens, Sprott's #3; 75 gro. Pens, Sprott's #10; 10 lbs. Rubber Bands #85.

Aug. 22, 19 . Robert Morrison, 421-18th St., Edmonton, Alta., via C.P.R. Terms Net 30 days, 2% 10 days. 10 gro. Rulers, 12" #136; 12 gro. Rulers, 15" #137; 25 Spellers, Canadian Business.

Aug. 22, 19 . Davis & Bell, Halifax, N.S., via C.P.R. Terms Net 30 days, 2% 10 days. 25 Arithmetic, New Method; 10 gro. Ink Commercial, 2 oz. Bottle.

Aug. 22, 19 . A. R. Dow, Brandon, Man., via C.P.R. Terms Net 30 days, 2% 10 days. 5 doz. Inkstands #712; 25 gro. Penholders, Fingerfit.

Aug. 22, 19 . Geo. Miller, Stratford, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 20 gro. Penholders, Velvet; 6 lbs. Rubber Bands #85; 6 Cash Book, #412, 500 pp.

Aug. 23, 19 . Cash Sales made over the counter (legal tender). 2M. Paper Fasteners, S1; 3M. Paper Fasteners, S2; 1 doz. Paste, W.W.; 1 gro. Pencils #21HB.; 2 gro. Pencils #21 B.

Deposit all cash.

Aug. 24. Petty Cash Payments. 1 Roll Gummed Tape for Shipping Room, $1.60; Donation to Orphans' Home, $2.00; Window Cleaning, $1.50; Charwoman, $2.00; Telegram, 40c; Soap, 35c; Laundry, 65c; Office Pens, 40c; Washing Soda, 75c; Car Fare, Delivery, $1.00; Dutch Cleanser, 60c; Twine for Warehouse, $2.00.

When one Petty Cash Sheet is completed, show the footings of each column and carry them forward to another sheet.

Aug. 26. The following properly certified invoices have been returned from the Receiving Room:—

Canadian Importing Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 48 gro. Erasers, P. & P. #414 @ $6.00, less 33 1/3%—$192.00; 48 gro. Erasers Typewriter, #420, @ $15.00, less 40%—$432.00; 200 gro. Pencils, #21 HB. @ $8.00—$1,600.00; 200 gro. Pencils, #21 B. @ $8.00—$1,600.00. Total—$3,824.00.

Dominion Pencil Co., 29 St. Urbain St., Montreal, Que., via G.T.R. Terms Net 30 days, 2% 10 days. 200 gro. Penholders, Fingerfit, @ $10.00—$2,000.00; 225 gro. Penholders, Velvet, @ $8.00—$1,800.00; 50 lb. Rubber Bands @ $4.00, less 25%—$150.00. Total—$3,950.00. Freight $1.36 paid out of petty cash.

Lufkin Rule Co., 147 James St., Hamilton, Ont., via Canadian Express Collect. Terms Net 30 days, 2% 10 days. 30 gro. Ruler, 12", #136, @ $16.00—$480.00; 40 gro. Ruler, 15", #137, @ $24.00—$960.00. Total—$1,440.00. Express, $2.20, paid from Petty Cash.

Aug. 26. Properly certified invoices for materials received:—

Grand & Jones, your address, via Delivery. Terms Net 30 days, 2% 10 days. 2M. Advertising Catalogues, $80.00; 2M. Catalogue Envelopes, $14.00. Total—$94.00. (Charge Advertising.)

W. J. Gray, your address, via Delivery. Terms Net 30 days. 1 pkg. Powder Ink for printing cases, $3.00.

Canadian Typewriter Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 1 Box Carbon Paper for Office use, $4.00.

Post all items affecting Personal Accounts.

Aug. 31. *Payments.* Manager's Salary, $150.00; Office Salaries, $62.00; Warehouse Salary, $46.00; Travellers' Salaries, $150.

Aug 31. *Receipts.* On 3.30 mail, too late for deposit: Henry Bell, $735.00; Davis & Bell, $945.00.

Foot the various columns of the Petty Cash Sheet and balance it. Transfer all the totals to the General Cash Book except the total of the "Other Accounts" column. The items of the "Other Accounts" column, if not all for General Expense, must be entered in the General Cash Book individually. All these totals and items should appear in the Cash Book in the General Ledger Column. For these total expenses as entered in the General Cash Book, you must issue another check, entering it on your Petty Cash Sheet. This will restore to the Petty Cash Sheet the balance with which you started it originally.

Have all your work checked.

Balance the Cash Book. Make a Reconciliation Statement. Post and make a Trial Balance.

When posting from your Cash Book, post the total of the Cash Sales to the credit of Merchandise Sales Account. The posting of the Cash Book affects the ledger as follows:—

Received Side: 1st column, Sales Discount Dr., Individual Personal Account Cr.; 2nd column, Cash Dr., Individual Personal Account Cr.; 3rd column, Cash Dr., Merchandise Sales Cr.; 5th column—Not Posted.

Payments Side: 1st column, Individual Accounts Dr., Purchase Discounts Cr.; 2nd column, Individual Personal Accounts Dr., Cash Cr.; 4th column, Individual General Ledger Accounts Dr., Cash Cr.; 5th column—Not Posted.

THE COLLEGE BANK

In Account With *George Adams*

Date				Deposits	Checks	Checks	Checks
		Bal		7730 52	50 —	14265 80	F
Aug	1	Dep	F	688 40	169 13	2971 36	
	2	"	F	102 80	4 80	30 —	
	4	"	F	7108 46	7642 —	150 —	
	12	"	F	93 80	305 76	46 —	
	16	"	F	1219 71	111 30	62 —	
	23	"	F	51 20	2827 20	150 —	
					1500 —	41 63	
					4 17		
					1399 44		
					62 —		
					46 —		
					120 —		
		Debit Bal		721 90	24 —		
				17716 79	14265 80	17716 79	

Illustration No. 73 **Bank Pass Book, August 31**

EXAMINATION, SECTION 11.

1. What are (*a*) Credit Sales; (*b*) Cash Sales? Which are most numerous in the wholesale business?
2. How would you record a Cash Sale?
3. Should a record of the various items sold for cash be kept? Give reasons for your answer.
4. Give a thorough explanation of the Imprest System.
5. How may the results of a Petty Cash Book or Sheet be posted to the ledger?
6. If Cash Sales are entered on a charge sheet and filed in the Sales Book, are the amounts entered on the Recapitulation Sheet? Explain the reason for your answer.
7. Define (*a*) "Rating"; (*b*) "Financial Agency."
8. What is the difference between Present Capital and Liquid Surplus? Which of the above is taken into greatest consideration in granting credit?

Section 12

MEMORANDUM OF TRANSACTIONS FOR SEPTEMBER.

Sept. 1. Carry the true bank balance forward to the proper column in the Cash Book. Do not carry Cash Balance forward in the General Cash Book. Carry Balance of Petty Cash forward to sheet No. 3.

Sept. 1. Deposit all cash on hand, $1,680.00. Exchange, $2.10.

Sept. 3. *Receipts.* C. R. Andrews, check in full of account less discount, $314.58; Henry Bell, check $573.30 in full of account less discount; Robert Duncan, check $940.80 in full of account less discount; A. C. Graham, check $1,237.70 in full of account less discount; King & Son, check $3,836.40 in full of account less discount; Geo. Miller, check $2,629.88 in full of account less discount; Geo. R. Moore, check $866.54 in full of account less discount; J. D. Russell & Co., check $1,081.35 in full of account with exchange on check included in face; Davis & Bell, check $215.87 in full of account with exchange, 27c, included in face.

Sept. 3. Deposit all cash, $11,696.42. Exchange, $14.63.

NOTE.—Have your work checked and post items affecting personal accounts. Check each item as it is posted. Rule all personal accounts which balance.

Sept. 5. *Filled Orders:—*

C. R. Andrews, 559 Bank St., Ottawa. via C.P.R. Terms Net 30 days, 2% 10 days. 100 Arithmetic, New Method; 20 Cash Book, #412, 500 pp.

Henry Bell & Co., 121-23rd St., Calgary, Alta., via C.P.R. Terms Net 30 days, 2% 10 days. 25 gro. Erasers, P. & P. #414; 25 gro. Erasers, Typewriter, #420.

Davis & Bell, Halifax, N.S., via C.P.R. Terms Net 30 days, 2% 10 days. 5 gro. Ink Commercial, 2 oz. bottle; 10 doz. Inkstands #712; 25 Journals #412, 500 pp.

A. R. Dow, Brandon, Man., via C.P.R. Terms Net 30 days, 2% 10 days. 50 L.L. Binders, #415; 50M. L.L. Sheets, #415; 25 Index, 28's, Can. Tab.

Robert Duncan & Co., Hamilton, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 75M. Paper Fasteners, S1; 60M. Paper Fasteners, S2; 187½ doz. Paste, Stafford's W.W.

A. C. Graham & Co., Main St., Winnipeg, Man., via C.P.R. Terms Net 30 days, 2% 10 days. 100 gro. Pencils, #21 H.B.; 75 gro. Pencils, #21 B.

John Holt, Brockville, Ont., via C.P.R. Terms Net 30 days, 2% 10 days. 100 gro. Penholders, Fingerfit; 200 gro. Penholders, Velvet.

A. R. King & Son, 149 Government St., Victoria, B.C., via C.P.R. Terms Net 30 days, 2% 10 days. 200 gro. Pens, Sprott's #1; 50 gro. Pens, Sprott's #2.

C. E. Mann, Collingwood, Ont., via G.T.R. Terms, Net 30 days, 2% 10 days. 100 gro. Pens, Sprott's #3; 150 gro. Pens, Sprott's #10; 25 lbs. Rubber Bands, #85.

Geo. Miller, Stratford, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 25 gro. Rulers, 12", #136; 25 gro. Rulers, 15", #137; 200 Spellers, Canadian Business.

Geo. R. Moore, St. John, N.B., via C.P.R. Terms Net 30 days, 2% 10 days. 15 Arithmetic, New Method; 20 Cash Book #412, 500 pp.; 2 gro. Pencils, #21 B.

Sept. 5. *Payments.* The checks below which are payable in other localities have exchange added or included in the face of each check.

Canadian Importing Co. in full of account less discount, $3,747.52; Canadian Typewriter Co. in full of account; Dominion Pencil Co., Montreal, Que., in full for invoice of Aug. 9, $4,275.00, Exchange $5.34, Check—$4,280.34; Grand & Jones in full of account, $159.62; W. J. Gray in full of account, $3.00; Irish & Johnson in full of account, $96.00.

Sept. 7. *Petty Cash Payments.* Telegrams, 50c; Supplies for charwoman $1.00; Window Clearing, $1.50; Charwoman, $2.00; Warehouse Twine, $2.00; Stamps for Office, $5.00; Stamp Pad Ink for Office, 40c.

Sept. 9. Mail orders with cash enclosed:—

Joseph M. Ward (no account), Orillia, Ont. P.O. Order enclosed, $9.00. Ship via Dominion Express Collect. 2 Journals, #412, 500 pp. @ $4.50—$9.00.

W. R. Wellington, Cobalt, Ont. (no account). Express Order enclosed, $24.00. Ship via express Collect. 10M. Paper Fasteners, S1 @ $2.40—$24.00.

Russell & Brown, Winnipeg, Man. Check enclosed, $72.00. Ship by Express Collect. 6 gro. Pencils, #21 HB. @ $12.00—$72.00.

Sundry Counter Cash Sales, $78.00 (legal tender) for goods as follows:—1 gro. Pencils, #21 B., $12.00; 2 gro. Penholders, Fingerfit, $30.00; 3 gro. Penholders, Velvet, $36.00. Total—$78.00.

The above orders have been forwarded to the shipping room for immediate attention.

Filled Orders:—Filled orders for the above cash sales have been received from the shipping room.

Sept. 9. Deposit all cash on hand, $183.00. Exchange, 15c.

Sept. 12. *Filled Orders:—*

W. K. Wright, 427 Hastings St., Vancouver, B.C., via C.P.R. Terms Net 30 days, 2% 10 days. 25 Arithmetic, New Method; 10 Cash Book, #412, 500 pp.; 20 gro. Penholders, Velvet.

J. D. Russell & Co., 124 St. Catherine St., Montreal, Que., via G.T.R. Terms Net 30 days, 2% 10 days. 50 gro. Penholders, Fingerfit; 40 gro. Penholders, Velvet.

Robert Morrison, 421-18th St., Edmonton, Alta., via C.P.R. Terms, *Dating as of Sept. 30th,* Net 30 days, 2% 10 days. 50 gro. Pencils, #21 HB.; 60 gro. Pencils, #21 B.

Geo. R. Moore, St. John, N.B., via C.P.R. Terms, *Dating as of Sept. 30th,* Net 30 days, 2% 10 days. 10 gro. Rulers, #136, 12″; 12 gro. Rulers, #137, 15″.

Geo. Miller, Stratford, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 20 gro. Erasers, P. & P., #414; 10 gro. Erasers, Typewriter, #420; 6 doz. Inkstands, #712.

C. E. Mann, Collingwood, Ont., via Canadian Express Collect. Terms Net 30 days, 2% 10 days. 10 lb. Rubber Bands, #85; 12 gro. Pens, Sprott's #2.

Have your work checked by your teacher and post all items affecting personal accounts.

Sept. 15. *Receipts.* C. R. Andrews, check in full of account with exchange added, check $323.80, discount $x.xx, exchange 40c; Henry Bell & Co., check in full of account with exchange added, check $431.74, discount $x.xx, exchange 54c; Davis & Bell, check in full of account with exchange added, check $483.25, discount $x.xx, exchange 60c; A. R. Dow, check in full of account with exchange added, check $1,629.54, discount $xx.xx, exchange $2.04.

Have your work checked and post all items affecting personal accounts.

Sept. 15. Deposit, $2,868.33. Exchange, $x.xx.

Sept. 15. *Payments:—*Office Salaries, $62.00; Warehouse Salaries, $46.00; Travellers' Salaries, $120.00.

Sept. 17. *Payments:—*Montreal *Star,* $42.00 for advertising bill; W. A. Whalen, bill for cartage on goods delivered, by us $22.50.

Sept. 19. The following properly certified invoices have been forwarded from the receiving room:—

Sept. 19. Stafford Ink Co., your address, via Delivery. Terms Net 30 days, 2%

10 days. 20 gro. Ink, Commercial, 2 oz. bottle @ $20.00, less 20 & 25—$240.00; 50 doz. Paste, W.W. @ $2.00—$100.00. Total—$340.00.

Sept. 19. Dominion Pencil Co., 29 St. Urbain St., Montreal, Que., via C.P.R. Freight Prepaid. Terms Net 30 days, 2% 10 days. 25 doz. Inkstands, #712, @ $50.00, less 40 & 20—$600.00; 25 lbs. Rubber Bands, #85, @ $4.00, less 25%—$75.00. Total—$675.00.

Arrangements have been made with this firm to ship this shipment F.O.B. your address. By some error this shipment has come freight collect. The freight is $12.20. Pay it by check charging Freight Inward. Charge it back to Dominion Pencil Co. through the Journal, making proper explanation.

§ **131. Free on Board,** abbreviated F.O.B., is a term used to indicate that the vendor puts the goods on board the ship free of all expenses and shipping charges. This term formerly applied to shipments made by boat but is now commonly used in connection with shipments made by railway cars.

Sept. 19. Commercial Text Book Co., 383 Church St., Toronto. Terms Net 30 days, 2% 10 days. 200 Arithmetic, New Method, @ $3.00, less 20 & 20—$384.00; 500 gro. Pens, Sprott's #1, @ $1.10—$550.00; 500 gro. Pens, Sprott's #2, @ $1.10—$550.00; 500 gro. Pens, Sprott's #3, @ $1.10—$550.00; 500 gro. Pens, Sprott's #10, @ $1.10—$550.00; 300 Spellers, Canadian Business, @ $1.00, less 20 & 20—$192.00. Total—$x,xxx.xx. Freight paid out of Petty Cash, $2.15.

Sept. 19. Patterson & Co., your address. Terms Net 30 days, 2% 10 days. 50 Cash Book, #412, 500 pp. @ $3.00—$150.00; 50 Journal, #412, 500 pp. @ $3.00—$150.00; 50 L.L. Binders, #415, @ $8.00—$400.00; 50 L.L. Index, 28's, Can. Tab, @ $2.00—$100.00; 100M. L.L. Sheets, #415, @ $6.00—$600.00. Total—$x,xxx.xx.

Sept. 19. Canadian Importing Co., your address. Terms Net 30 days, 2% 10 days. 48 gro. Erasers, P. & P., #414 @ $6.00, less 33 1/3%—$192.00; 48 gro. Erasers, Typewriter, #420, @ $15.00, less 40%—$432.00; 100M. Paper Fasteners, S1 @ $3.00, less 20 & 33 1/3—$160.00; 100M. Paper Fasteners, S2 @ $3.00, less 20 & 33 1/3—$160.00; 100 gro. Pencils, #21 HB. @ $8.00—$800.00; 100 gro. Pencils, #21 B. @ $8.00—$800.00. Total—$x,xxx.xx.

Sept. 19. Certified invoices for supplies received:—

Canadian Typewriter Co., your address. Terms Net 30 days, 2% 10 days. 1 Typewriter Ribbon, Underwood Blue Record, $1.00; 1 Bottle Typewriter Oil, $2.00. Total—$3.00.

W. J. Gray, your address. Terms Net 30 days. 1M. Petty Cash Sheets, $8.00; 1M. Advertising Pamphlets, $6.00; 1 Box Marking Brush, 60c. Total—$14.60.

Grand & Jones, your address. Terms Net 30 days, 2% 10 days. 2 rms. Kraft Wrapping Paper, 30 x 40-60 lb. @ 12c—$14.40; 1 roll Gummed Paper Tape, $1.60. Total—$16.00.

PURCHASE

INVOICE DATE		NAME OF CREDITOR	ACCOUNTS CREDITED					DUE											
			ADDRESS OF CREDITOR	NO.	TERMS	AMOUNT		JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.

Illustration No. 73A

Note. Form of Purchase Journal sometimes used when checks are issued for individual invoices which are subject to a cash discount. This form of journal not only helps the bookkeeper to issue checks on the exact date necessary in order to earn the cash discount, but also assists the accountant in determining with reasonable accuracy the funds

Sept. 21. *Filled Orders:—*

C. R. Andrews, 559 Bank St., Ottawa, Ont., via C.P.R. Terms Net 30 days, 2% 10 days. 100 Spellers, Canadian Business; 10 gro. Rulers #136, 12"; 12 gro. Rulers, #137, 15"; 20 lbs. Rubber Bands, #85.

Henry Bell, 121-23rd St., Calgary, Alta., via C.P.R. Terms Net 30 days, 2% 10 days. 100 gro. Pens, Sprott's #10; 150 gro. Pens, Sprott's #3; 50 gro. Penholders, Velvet; 60 gro. Penholders, Fingerfit; 50 gro. Pencils, #21 B.; 100 gro. Pencils, #21 HB.

Davis & Bell, Halifax, N.S., via C.P.R. Terms Net 30 days, 2% 10 days. 45 doz. Paste, Stafford's W.W. @ $4.00, less 20%—$144.00; 25M. Paper Fasteners, S2 @ $3.00, less 20%—$60.00; 10M. Paper Fasteners, S1 @ $3.00, less 20%—$24.00; 4 gross Ink, Stafford's Commercial, 2 oz., $20.00, less 20%—$64.00; 4M. L.L. Sheets #415 @ $12.00, less 25%—$36.00. Total—$328.00.

A. R. Dow, Brandon, Man., via C.P.R. Terms Net 30 days, 2% 10 days. 20 Journal #412, 500 pp.; 10 doz. Inkstands #712.

Robert Duncan, Hamilton, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 20 L.L. Binders, #415; 50M. L.L. Sheets #415; 25 Index, 28's, Can. Tab.

John Holt, Brockville, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 10 doz. Inkstands #712; 5 gro. Ink, Commercial, 2 oz. bottle.

A. R. King & Son, 149 Government St., Victoria, B.C., via C.P.R. Terms, dating as of Sept. 30th, Net 30 days, 2% 10 days. 20 gro. Erasers, Typewriter #420; 25 gro. Erasers, P. & P. #414.

C. E. Mann, Collingwood, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 100 Arithmetic, New Method; 50 gro. Penholders, Velvet; 50 gro. Pencils #21 HB.

Sept. 22. Orders received with cash enclosed:—

R. O. Smith & Co., Orillia, Ont., check $24.00. Ship by Canadian Express Collect. 10 Arithmetic, New Method.

Brandon Bookstore, Brandon, Man., via Dominion Express Collect. Express Order enclosed, $9.00. 2 Journal #412, 500 pp.

People's Stationery Co your address, via "Taken." Marked Check, $30.00. 2 gro. Penholders, Fingerfit.

§ **132. A Marked or Certified Check** is one which has been presented at the bank on which it is drawn and the amount charged against the account of the person who has issued the check. A check is "Marked" or certified by the ledgerkeeper in the bank by stamping it "Certified" and by initialing the certification. When a check is "marked" the bank becomes responsible for the payment of the check. A check may be presented

JOURNAL

ACCOUNTS DEBITED						
MDSE. PURCHASES	WAREH'SE EXPENSES	SELLING EXPENSES	GENERAL EXPENSES	OTHER ACCOUNTS		
				ACCOUNT	√	AMOUNT

needed from day to day to meet these maturing obligations. When the ordinary form of Purchase Journal is used, the same information may be obtained by filing all purchase journal vouchers under a tab indicating the date on which the debts fall due and filing the invoices when paid numerically on a Purchase Journal Vouchers' File.

for certification either by the drawer before it is forwarded to the payee, or by the payee (if a local check) as soon as it has been received. A check is not usually presented by the payee for certification unless the financial standing of the drawer is very doubtful. In this event the payee usually presents the check for certification before shipping the goods for which the check is intended as payment.

Sundry Counter Cash Sales:—$72.00 (legal tender). 4 gro. Pencils, #21 HB.; 2 gro. Pencils, #21B.

Filled Orders:—Filled orders for the above cash sales have been received from the shipping room.

Sept. 22. Deposit all cash, $135.00. Exchange, 15c.

Have your work checked and post all items affecting personal accounts.

Sept. 25. Petty Cash Payments: Telegram, 65c; Warehouse Twine, $2.20.

Sept. 29. *Payments.* Canadian Importing Co., check in full of account—check $2,493.12; Commercial Text Book Co. in full of account with exchange included in face of check—check $2,723.89, discount $xx.xx, exchange $xx.xx*; Dominion Pencil Co. in full of account with exchange added in face of check—check $4,605.05, discount $xx.xx, exchange $x.xx.

Sept. 30. *Payments.* Office Salaries, $62.00; Warehouse Salaries, $46.00; Travellers' Salaries, $120.00; Manager's Salary, $150.00.

Sept. 30. *Receipts.* The following checks have been received too late for deposit: W. K. Wright, $200.00; Robert Morrison, $644.00; John Holt, $2,445.00.

Sept. 30. Issue a check to cover petty expenses to date per Petty Cash Sheet.

Have your work checked and post all items affecting personal accounts.

Have all the records in your books checked by your teacher. Balance the Cash Book and make a Reconciliation Statement. Foot and rule the various books. Post and make a Trial Balance.

Mr. Adams is considering the advisability of taking in a partner and has decided to close his books. The work of closing will be taken up in Section 14.

*Note. For rate of exchange see §85. The Bank Act requires that every bank shall maintain branches or agencies at Toronto, Montreal, Halifax, St. John, Winnipeg, Victoria, Charlottetown, Regina and Calgary.

THE COLLEGE BANK

In Account With George Adams

Date				Deposits		Checks		Checks		Checks	
Sept	1	Dep	F	1680	00	B 3721	90	Fd. 9679	50		
	3	"	F	11696	42	3747	52	2493	12		
	9	"	F	183	—	3	92	62	—		
	15	"	F	2868	33	5	—	46	—		
	22	"	F	135	—	4280	34	150	—		
						300	—	38	01		
						80	—	120	—		
						96	—	12588	63		
						159	62				
						3	—				
						120	—				
						62	—				
						46	—				
						12	20				
						42	—	3974	12	B	
						9679	50				
				16562	75			16562	75		

Illustration No. 74 George Adams' Bank Pass Book, September 30

Section 13

Mr. Adams has not completed his financial year, but has been considering the advisability of taking in a partner and has reached that point in his negotiations where it is necessary for him to put before his prospective partner a statement of his assets and liabilities and a statement of his earnings during the last nine months. He has, therefore, decided to close his books. Although this is not the end of a financial year, the work required will be exactly the same as if the financial period closed on this date.

§ **133.** The process of closing the books may be briefly outlined as follows:—

1. Making a Preliminary Trial Balance.
2. Stock Taking or Finding Merchandise Inventory.
3. Estimating the Deferred Charges and making the necessary entries to adjust accounts affected.
4. Estimating Accrued Assets and making necessary Journal entries to adjust accounts affected.
5. Estimating the Accrued Liabilities and making the necessary Journal entries to adjust the accounts affected.
6. Estimating the Deferred Credits and making the necessary Journal entries to adjust the accounts affected.
7. Estimating the depreciation on all *assets which depreciate* through wear and tear and making the necessary Journal entries to adjust the accounts affected.
8. Estimating the Bad Debts and making necessary Journal entries to adjust the accounts affected.
9. Making a final Trial Balance and a Working Sheet (sometimes called a classified columnar balance sheet)—Optional.
10. Making a Financial Statement (1. Trading & Profit & Loss; 2. Assets & Liabilities). If a Working Sheet has been prepared the Financial Statements may be made after the books have been closed.
11. Closing the nominal accounts.
12. Transferring back to their respective accounts the amounts in the following accounts Deferred Charges, Accrued Assets, Accrued Liabilities, Deferred Credits.
13. Making a Proof Trial Balance.

NOTE.—Steps Nos. 3, 4, 5 and 6 are frequently known as "Estimating" the various resource and liability inventories for the Nominal or Profit and Loss accounts and making necessary Journal entries to carry inventories into their respective accounts.

As the work of closing the Ledger is new to the student, this will be deferred until Section No. 14. This section will give the pupil extensive practice in the various features involved in closing the ledger.

Exercises in Preparing the Books for Closing.

These exercises do not form any part of the records of Mr. Geo. Adams and when recorded in your books must be kept separate and distinct from the records of Geo. Adams.

§ **134. Financial Year.** One of the objects of bookkeeping is to enable the trader to ascertain with accuracy the amount of the profit or loss during any given period. This period may be of any duration desired and is decided solely by the trader himself. The usual accounting period is one year, but the date of closing the books is not necessarily December 31st, the end of the calendar year. Traders usually select for the date on which to close their books that on which the inventory or stock on hand is the smallest. If at that time a statement of profits is prepared for the previous twelve months, this accounting period is called a "Financial Year," and sometimes, though incorrectly, a "Fiscal Year."

§ **135. Fiscal Period.** The term "Fiscal" has reference to the Public Treasury or Revenue, and is more correctly used in connection with the financial period of a Government or Community.

§ **136. The process of closing** is briefly outlined on page 107, and exercises given in this section will follow the order of closing thus outlined.

Step No. 1. *Taking a Trial Balance.* This work has been done so frequently that any further instruction is unnecessary.

§ **137.** Step No. 2. **Stock Taking or Finding the Physical Inventory, Perpetual Inventory, Book, or Going Inventory.** In order to get a clear idea of the necessity of taking an inventory before the profit or loss can be ascertained, let us consider once more this simple transaction. John Brown bought goods which cost $100.00. He sold part of the goods for $30.00, paying $5.00 to have the goods delivered to his customer. Find his profit on the transaction. You would quickly decide that it would be impossible to find the profit until you were given the value at cost price of the goods left on hand. If, however, your problem stated that John Brown after making the sale had on hand at cost price goods valued at $60.00, your problem would be quite simple. The bookkeeping we have done during the past nine months has been simply recording transactions exactly similar to those stated in the simple problem. You have been buying, selling and paying the expense of buying and selling. You now have recorded in your books the value of goods bought, the sale price of goods sold and the cost of buying and selling. Before you can calculate your profit you must ascertain the value of goods on hand at cost price —your *Merchandise Inventory.* The only way of actually ascertaining this is by "Taking Stock," that is, by counting weighing or measuring all goods on hand and valuing them at *actual laid down cost* or at the market price if the value has materially dropped. An inventory taken in such a way is called a *Physical Inventory.* The actual cost for inventory purposes is not the bare cost of the goods as they are billed on the invoices but the amount it has cost to place the goods in the possession of the purchaser. The cost of inward freight, duty, brokerage, inward cartage, and any other expense incidental to bringing the goods to the warehouse of the purchaser should properly be added to the invoice price in order to ascertain the cost. If at the date on which the inventory is taken, the prices of goods listed have advanced, it must be remembered that this advanced market price must *not* be used in compiling the inventory. Any increase in value of the stock on hand will be taken credit for in a future year as a part of the profit when the goods are sold, and even though the market has advanced, in no case may the value of the inventory be increased for any sum in anticipation of the profit which may be made when the goods are sold. Such profit belongs to the period in which the sales take place. If the market has fallen, or if the goods have deteriorated in any way, one would *not* be justified in assuming that the goods were worth the original price paid. Under these conditions the stock would be valued not at the original cost but at a figure which would show the proper diminution in the value which has taken place. For purposes of convenience, it is customary in certain businesses to keep a *Perpetual Inventory,* sometimes termed a *Going Inventory* or *Book Inventory.* This may be done by keeping a sheet in a loose leaf binder for each class of merchandise purchased. By entering on this sheet all quantities purchased, and deducting all quantities sold, the balance will then show the quantity of this particular line of goods on hand. Such a record, while valuable for insurance purposes and to facilitate ordering, will not disclose errors which may be made in shipping or otherwise handling merchandise, and it cannot, therefore, take the place of the annual stock taking or Physical Inventory.

While the Physical Inventory is essential for the yearly or half-yearly closing, the demand in more recent years for more frequent statements of earnings has necessitated the keeping of the Perpetual or Book Inventory which will enable the accountant to prepare with reasonable accuracy the statements required, without the expense and delay resulting from an actual count.

When a Physical Inventory is taken, and it is found that owing to errors or to any other cause, the Perpetual Inventory does not agree with the physical enumeration, it

naturally follows that the book inventory must be corrected and the "leak" traced, if possible.

Problems in finding Merchandise Inventory.
(Use Foolscap Paper.)

¶ 1. On December 30th, 19 , John A. Bell, wishing to close his books in order to determine his profit or loss for the past twelve months, has instructed his employees to "Take Stock." The Stock Sheets prepared for him are as follows:—

Stock.	*Invoice Price.*	*Cost % to Put in Warehouse, Including Inward Freight, Duty, Etc.*
1,500 bu. Potatoes	$2.50	2%
2,100 bbls. Apples	8.00	Delivered at warehouse
120 bunches Bananas	3.60	5%
243 boxes Apples	4.00	2%
50 boxes Celery	5.00	5%
20 crates Strawberries	5.40	4%

The present market value is considered to be the same as cost on the date of taking the above inventory.

Find the value of his Merchandise Inventory. (Use Foolscap.)

¶ 2. W. R. Hughes has decided that as his stock of merchandise is lowest on March 31st, he will close his books on that date. His financial year will, therefore, close on March 31st. From the stock sheets shown below find his Merchandise Inventory.

Stock Sheets, W. R. Hughes, March 31st, 19 .

Goods.	*Gross Cost.*	*Present Market Value.*
2,000 bu. Fall Wheat	$3.50	$3.00
2,875 bu. Oats	1.00	1.20
3,120 bu. Barley	1.75	1.90
1,200 bu. Buckwheat	1.45	1.45
100 bbls. Apples, "Kings"	5.00	5.50
200 bags Carrots	1.75	1.75
200 bags Manitoba Flour	13.25	14.00
300 bags Ontario Flour	9.65	10.00
1,200 bu. Peas, No. 2	3.00	2.75

¶ 3. On closing his financial year, W. K. Rennolds finds that all lines of bond papers have increased in value 25% and all other lines 10%. Find the value of his Merchandise Inventory from the stock sheets below prepared by actual count.

Mdse. Inventory Stock Sheets, W. K. Rennolds.

Goods.		*Invoice Cost.*	*Cost % to put Goods in Warehouse.*	*Market Advance.*
250 Rms. Victoria Bond,	20 lb. to Rm.	32c per lb.	½%	25%
416 Rms. Alberta Bond,	20 lb. to Rm.	28c per lb.	½%	25%
520 Rms. Crown Bond,	18 lb. to Rm.	22c per lb.	½%	25%
1,200 Rms. Star Writing,	24 lb. to Rm.	25c per lb.	35%	10%
560 Rms. M.F. Book	60 lb. to Rm.	12c per lb.	1%	10%
1,200 Rms. News,	31 lb. to Rm.	9c per lb.	½%	10%

§ 138. Step No. 3. **Estimating Deferred Charges.** During the course of the year's business, it is impossible to make purchases of coal, warehouse supplies, office supplies, etc., sufficient for the exact requirements for the year. Warehouse supplies, office supplies, advertising matter, coal, etc., bought during the year are sure to be left on hand at the end of the year. As it is necessary to determine the cost of operating for the past year only, it naturally follows that we should not *leave* charged against the past year, materials bought and already recorded during that year but which will be used up in the succeeding year's operations. Such items as these which may be considered materials for running expenses and which are on hand at closing are known as *deferred charges.*

Suppose the Light, Fuel & Water account shows on your books a debit balance of $100. You find that by taking stock of coal on hand you still have seven tons. By reference to your books, you find that coal has cost you $12.00 a ton. The value of coal on hand is therefore $84.00. If you were to disregard this item your Light, Fuel & Water account would show a cost or expense of $100.00 for the past accounting period. Since you have coal on hand valued at $84, the cost of light, fuel and water was not $100, but $100 − $84 = $16. It naturally follows that this account must be adjusted so that it will show the expense for the *past account period only.* This will be accomplished by means of the following Journal entry.

Deferred Charges, Dr.	$84.00	
Light, Fuel & Water, Cr.		$84.00

Illustration No. 78

When this Journal entry has been posted, the account will appear as follows:—

Light, Fuel & Water.

Dr.	*Cr.*
$100.00	$84.00

Illustration No. 79

The balance of this account is now $16.00, which is the cost of Light, Fuel & Water for the past accounting period. The Deferred Charges account is an asset or Real account and the balance of this account when making up the financial statement will be included among the assets.

When preparing the books for closing, a Journal entry similar to that given above must be made to adjust every nominal or expense account in which entries have been recorded for materials still on hand. Deferred Charges are sometimes referred to as Asset or Resource Inventories.

Problems in Finding Deferred Charges. (*Asset Inventories*)

¶ 1. You are engaged as bookkeeper for W. J. Mills. At the end of the financial year, December 31st, you have on hand the following supplies:—

Warehouse Supplies purchased Feb. 1st, present year, cost $40. Amount on hand present year, value at cost price, $25.

Office Supplies purchased March 1st, present year, cost $60. Amount on hand at cost, $50.

What is the total value of warehouse supplies on hand (Deferred Charge)? What is the loss on warehouse supplies attributable to the accounting period ending December 31st? What is the value of office supplies on hand (Deferred Charges)? What is the loss on office supplies attributable to the accounting period ending December 31st?

Under the heading Deferred Charges list these two assets at their present value showing the total Deferred Charges.

Make the Journal entries necessary to adjust the two accounts when closing the books.

¶ 2. From the following data make a statement of Deferred Charges:—

W. R. Jackson has the following accounts in his ledger:—

Advertising, Dr.	$100.00
Light, Fuel & Water, Dr.	60.00
Warehouse Supplies, Dr.	30.00
Office Supplies, Dr.	40.00
Insurance, Dr.	60.00

On taking stock he finds the following supplies on hand:—

Advertising Matter at cost	$75.00
Coal on hand	2 tons @ $10 per ton
Office Supplies at cost	32.00

He also finds that the amount of $60 paid for insurance premiums has paid for considerable insurance for the succeeding year. The value of unearned insurance or that portion of the premiums which pays for protection in the succeeding year is $40. Make a statement of the Deferred Charges. Show total loss on each account for the past accounting period and total loss on all above accounts. Make a Journal entry which would adjust these accounts properly for closing at the end of a financial year so that the balance of each account would show the true cost or expense of that account for the past accounting period.

¶ 3. John Smith's financial year closes December 31st. His insurance account shows a total outlay for premiums paid during the past year for $96.00, made up as follows:—

January 1st, Policy for one year	$24.00
April 1st, Policy for one year	24.00
July 1st, Policy for one year	24.00
September 1st, Policy for one year	24.00

Making your calculation by months, find the total deferred charge. What is the cost of insurance attributable to the accounting period ending December 31st?

Make a Journal entry to adjust this account so that the balance will show the cost of Insurance for the past accounting period.

§ 139. Step No. 4. **Estimating Accrued Assets.** Among the assets of a business may be debts due to us on the date of closing, but not recorded in our books. These amounts are called Accruals or Accrued Assets. A Journal entry must be made which will carry all such assets into the Ledger to the proper accounts, *e.g.*, at the end of a financial year there is due to you and not recorded in your books one-half month's rent for a portion of your warehouse, $15. This amount would be carried into the Ledger by the following Journal entry:—

Accrued Assets, Dr.	$15.00	
Rent, Cr.		$15.00

Accrued Assets is an Asset Account.

Accrued Assets are sometimes referred to as Outstanding Assets, Asset Inventories or Resource Inventories.

Problems in Accrued Assets. (*Asset Inventories*)

¶ 1. A. R. Jackson's financial year closes March 31st. On that date he has the following accrued assets which are not entered in his books: Due to him for rent of garage $10.00 (Rent payable monthly on the 15th of each month, monthly rental $20.00). Interest to date from March 15th on a mortgage receivable $40.00.

Under the heading Accrued Assets, make a statement of the above, showing the total Accrued Assets not recorded in the books.

Make a Journal entry to carry these items into their proper accounts in the Ledger preparatory to closing the books at the end of a financial year.

§ 140. Step No. 5. **Estimating Accrued Liabilities.** In order to establish the true cost of operations for a financial year, it is necessary to take into consideration debts due, unpaid, and not recorded in our books. These are called Accrued Liabilities and may be carried into the Ledger by a Journal entry debiting the account representing the expenditure and crediting Accrued Liabilities. Accrued or Outstanding Liabilities are sometimes called Liability Inventories.

Problems in Accrued Liabilities. (*Liability Inventories*)

¶ 1. J. R. Henderson when closing his books on April 30th, finds that owing to delay in the municipal offices, his tax bill has not yet been received. His assessment is $22,500. The rate of taxation is 20 mills. Find the amount of his taxes for the municipal year ending December 31st. Find the proportion of this amount which should be entered in his books on closing to show the cost of taxes from January 1st to April 30th (Accrued Liability).

Make a Journal entry to adjust the "Taxes" account so that on closing it will show the cost of taxes to date of closing.

¶ 2. J. M. Marks on closing his books on January 31st finds that payment for certain services which have been rendered to his firm have not yet been made. The services rendered are as follows: Royalties payable on March 1st in each year, amount due to date, $250. Rent of warehouse, $1,600 per annum, payable quarterly (but not in advance) on the last day of March, June, September and December. The last payment was made in full to December 31st in the previous calendar year. Interest on a note not yet due, proportion of interest to date, $15.

Under the heading, Accrued Liabilities, make a statement of the above. Make the necessary Journal entry to adjust the Accounts on closing the books.

§ 141. Step No. 6. **Estimating Deferred Credits.** In conducting a business, it is sometimes found at the end of a financial year that payments have been made to us for services to be rendered by us in a succeeding period and which are applicable to that period. Such payments should not increase the profit for the past year, but as a record of the cash received has already been made, thus increasing the profits for this accounting period by money received for services not belonging to it, it becomes necessary for us to treat these payments as liabilities, in order to offset the fictitious resource which was created when these moneys were received. Such items are called Deferred Credits and are Liabilities, *e.g.:* On closing you find that J. Jones who rents your garage at $20 per month, has paid to the 15th of the succeeding month, or $10 in advance of the date of closing. Your Rent account in order to show the true income from rent, must have this $10 deducted. This would be accomplished by means of the following Journal entry: Rent, Dr. Deferred Charges, Cr. Deferred Credits are sometimes referred to as Liability Inventories.

Problems in Deferred Credits. (*Liability Inventories*)

¶ 1. On closing, Mr. A. B. Smith finds his income from rents is too great owing to payments made in advance to this date, to the amount of $200.

Make a Journal entry which will adjust this rent account so that the true income from rent will be shown by the balance of the account.

§ 142. Step No. 7. **Estimating Depreciation—Reserve or Provision for Depreciation.** In preparing a statement which is intended to show the true financial condition of a business, it is necessary to take into consideration the losses which have been sustained by the depreciation (or decrease in value owing to wear and tear) of articles used in the conduct of the business. As these articles are continually wearing out or becoming obsolete, it becomes necessary to estimate the cost of such a loss for the past accounting period and to set aside this amount from the income to offset this shrinkage in the assets referred to. This depreciation is usually shown by opening an account for depreciation, debiting it with the proper shrinkage and crediting an account called Reserve for Depreciation. This Depreciation account shows the loss sustained, while the Reserve for Deprecia-

tion in a statement is deducted from the corresponding asset so that the true value of the asset will be shown.

In the ledger this Reserve for Depreciation is frequently carried as a liability though it is *not* a liability. For many reasons, it is desirable that certain assets should be carried on the books at cost, and therefore the original figure should not be altered. To offset this asset which is carried on the books at the original cost, although its present value may be less than cost, a second section of the same account may be opened to represent this depreciation and, since the original amount is carried as an inflated asset, the second section of the account may be considered a *negative asset*, that is, it must appear on the credit side of the ledger to offset the untrue asset appearing on the debit side. The Cash Account is not such an asset, but may be used as an illustration.

Suppose you are keeping a Cash Account in the ledger. You receive $500, therefore Cash Account is debited. You pay $100 and decide to keep the Receipts and Payments in two separate places in the ledger, one section for Cash Receipts and another for Cash Payments. Cash Payments account would be credited with $100. Now in analysing the Cash Account in order to determine the amount of the asset, it would naturally be necessary for you to consider the two sections of the account, namely, Cash Receipts $500, and Cash Payments $100. *It would not be correct to consider the $500 an Asset and the $100 a Liability*, but you would consider the difference, $400, an asset. This is exactly the proper method of dealing with and considering the Depreciation of any asset.

Take the Furniture & Fixtures account as an example. Suppose this account shows a cost of $1,000. Furniture & Fixtures account has, therefore, been debited with $1,000. Let us designate this account as *Furniture & Fixtures Cost.* At the end of the Financial year, it is estimated that the furniture and fixtures are worth $800 only. The cost of the use of furniture and fixtures for the past year has been $200, therefore we must open an account to represent this cost or depreciation You do so by debiting Depreciation Account $200. Again, we must in some way adjust the Furniture and Fixtures account, so that it will show the true asset $800 and not $1,000 as it now stands. If it were *not* necessary to show the original cost year after year in this account, we would credit Furniture & Fixtures account with the Depreciation, $200, and in the succeeding year we would show the Furniture & Fixtures balance as $800. This would be accomplished by the following Journal entry: Depreciation, Dr. $200; Furniture & Fixtures, Cr. $200.

Since, as previously stated, it is desirable to have the Furniture & Fixtures account show from year to year the *original cost,* we must leave this section of the account as it stands and, to show the proper depreciation in the asset, we must credit a new account, or at least what may properly be termed a second section of the account, *Furniture & Fixtures Depreciation Reserve, $200.* The Journal entry would be as follows:—

Depreciation, Dr. $200
    Furniture & Fixtures Depreciation Reserve, Cr. $200.

In considering the Furniture & Fixtures Account, we should now think of the two sections of that account, namely, Furniture & Fixtures Cost (Dr. Balance $1,000, positive asset). Furniture & Fixtures Depreciation Reserve (Cr. Balance $200, negative asset). The true asset is the difference, $800.

This true asset is found only by including in our calculations both sections of the account just the same as the cash asset can be ascertained by including in our calculations Cash Received and Cash Paid, and by this method only.

Problems in Finding Depreciation.

¶ 1. On December 31st, J. R. Brock on closing his books has on hand furniture and fixtures as follows:—

1 Desk purchased July 1st present year, cost		$ 80.00
1 Office Chair	"	15.00
1 Typewriter	"	150.00
1 Typewriter Desk	"	20.00
6 Office Chairs @ $8.00 each	"	48.00
Electric Fixtures	"	60.00

It is estimated by Mr. Brock that these articles have depreciated in value 15%. Find the present value of his Furniture and Fixtures. Find amount of depreciation on Furniture and Fixtures. What loss on Furniture and Fixtures would be attributable to the accounting period ending December 31st.

Make a Journal entry to carry the loss into a Depreciation Account and create a Furniture and Fixtures Depreciation Reserve to take care of the reduction in the asset.

¶ 2. A. B. Mills is conducting his business in the store which he has leased for ten years. He knows that at the end of this period his lease will not be renewed. He has installed shelvings and fittings which cannot be removed and which in all probability cannot be sold when his lease expires. If the total cost of shelving is $50.00, what will be the value of his fixtures at the end of each year? What would be the depreciation on this amount each year?

Show a Journal entry which would each year carry the proper loss into a Depreciation account and would open a negative asset account to offset the unreduced asset.

§ 143. Step No. 8. **Estimating Bad Debts.—Reserve or Provision for Bad Debts.** A reserve for probable bad debts is usually established in exactly the same way as has been suggested for Depreciation on Furniture & Fixtures. There are various ways of arriving at the amount which would be set aside for bad debts. Some bookkeepers at the end of a financial period assume that a definite percentage of the accounts receivable will be uncollectible and they consequently create a Reserve for Bad Debts on the percentage basis. The best plan, however, is to go through the Accounts Receivable carefully and tabulate every account which shows the probability of a partial or complete loss. Having settled the amount of probable bad debts, there remains two methods of dealing with this item: First, by crediting the accounts and debiting Profit & Loss account in the Ledger, thus eliminating the amount entirely from the books; second, by allowing the accounts to stand in the ledger in their present condition and to offset the asset which they appear to exhibit, creating a negative asset account equal in amount under the heading, Reserve for Bad Debts. The latter plan (which is the better) would be accomplished by means of the following Journal entry:—Profit & Loss, Dr. Reserve for Bad Debts, Cr.

When any of the Accounts Receivable, which still stand open in the Ledger, and for which a Reserve has been established, have proved to be entirely worthless and therefore should be closed out of the books completely, the following entry should be made: Bad Debts, Dr./Personal Accounts Receivable, Cr. At the end of the financial year, the losses from these bad debts will be taken care of by the established reserve. These total losses would be charged to the reserve account by means of the following entry: Reserve for Bad Debts, Dr./Bad Debts, Cr. This entry will leave the Bad Debts Account in balance. The total loss through bad accounts for the year will then be shown by the debit side of the Reserve for Bad Debts Account. As the Reserve for Bad Debts has now been reduced by the amount of the losses on accounts for the past year, it now becomes necessary to re-establish the Reserve to an extent sufficient for the succeeding period. This is done by making another survey of the accounts receivable or by estimating a percentage of Acounts Receivable as a proper figure to represent the possible bad debts for the ensuing year. Having settled upon the amount which should be set aside, a similar entry should be made to that which was made in the previous year, namely, Profit & Loss, Dr./Reserve for Bad Debts, Cr.

The Reserve for Bad Debts account would be carried into the Ledger as a negative asset. On a statement it should be deducted from the asset "Accounts Receivable," and the net amount shown.

Exercises on Bad Debts.

¶ 1. On closing, John Manning has examined his Accounts Receivable carefully and has come to the conclusion that $250 may be uncollectible.

Make a Journal entry providing for this loss and reducing the assets to this extent by creating a negative asset account.

During the succeeding year one of these accounts against Robt. Mason for $50.00 has proved Worthless. Make the necessary Journal Entry on date of account proving worthless and at the end of the financial year.

§ **144.** Steps Nos. 9, 10, 11, 12. **Making a Second or Final Trial Balance and a Working Sheet; Closing Nominal Accounts; Closing Other Accounts such as Deferred Charges, etc.; Making a Proof Trial Balance; Financial Statements.** After the adjusting Journal entries have been made and posted, each Nominal account will show the true income or profit and the true cost of operations or deduction from income (sometimes called a loss).

The accounts are now in a proper condition from which to make the Financial Statement. As you know from your previous work, these statements are two in number: 1st, a Trading & Profit & Loss Statement which in itself is divided into two sections, (*a*) Trading Section, (*b*) Profit & Loss Section; 2nd, a Statement of Assets and Liabilities or Balance Sheet.

Before compiling these statements, many accountants prefer to make what is known as a Working Statement, which from illustration No. 95 is easily recognized as a trial balance with the results or balances of the Nominal accounts carried into two columns called Profit and Loss, and the results or balances of the Real Accounts carried into two columns headed Assets and Liabilities. In order to compile the regular financial statement, it is not absolutely necessary to first make a Working Statement, but it may be found a benefit to the student to make such a Working Statement before attempting the regular Financial Statements. The accounts in a Trial Balance of this nature other than the Capital Account may be divided into two distinct classes: First, Real Accounts or those the balance of which is an asset or liability; second, Nominal Accounts or those the balance of which is a profit or an expense or cost of operation. In the Trial Balance which is made at the end of a month's business, the accounts appear in the order in which they appear in the Ledger, usually alphabetically, but in the Final Trial Balance which is the basis for the Working Sheet, the accounts should be arranged in the following order: 1st, Trading Accounts; 2nd, Nominal Accounts; 3rd, Real Accounts; 4th, Capital Account.

A Working Sheet shows the total assets less total liabilities to be the Present Capital or Present Worth. The difference between the total income (Profits column) and the total cost of operations or deductions from income (Loss column), shows the Net Profit or Net Income which when added to the original Capital (or Net Credit) again produced the Present Worth.

Study carefully illustration No. 95. In order to give the pupil a clear idea of the method of preparing a Working Sheet, an example will be worked out from the data below.

Explanation and Illustration of method of preparing a Working Sheet from data given (Step No. 9).

§ **145.** Chas. R. Watson's financial year closes on December 31st. On that date his Trial Balance and Inventory were as follows:—

Chas. R. Watson.
Trial Balance—Dec. 31st, 19 .

	Dr.	*Cr.*
Capital		$15,000.00
Advertising	$ 100.00	
Cash	2,000.00	
Cash Petty Fund	50.00	
Coll. and Exchange	45.00	10.00
Delivery Expenses	300.00	
Freight Inward	200.00	
Furniture & Fixtures	480.00	
General Expense	70.00	
Insurance	420.00	
Light, Heat & Water	80.00	
Mdse. Inventory	10,000.00	
Mdse. Purchases	20,100.00	
Mdse. Sales		40,200.00
Office Postage	30.00	
Office Salaries	2,500.00	
Office Salaries (C. R. Watson's Drawings)	1,000.00	
Office Supplies	130.00	
Purchase Discounts		120.00
Purchase Rebates & Allowances		100.00
Rent	750.00	
Sales Discounts	140.00	
Sales Rebates & Allowances	200.00	
Taxes	150.00	
Telephone	30.00	
Travellers' Salaries	4,600.00	
Warehouse Postage	50.00	
Warehouse Salaries	1,400.00	
Warehouse Supplies	60.00	
Accounts Payable		19,455.00
Accounts Receivable	30,000.00	
	$74,885.00	$74,885.00

The Merchandise Inventory is $6,000. Other supplies on hand at closing are as follows: Warehouse Supplies, $15.00; Coal, $60.00; Office Supplies, $50.00; Value of Insurance Premiums paid for the succeeding financial period, $100.00; Rent due to him for portion of garage subletted, $40.00; Proportion of Taxes paid for succeeding financial period, $50.00; Due by Watson for Rent of Warehouse to date for a portion of the present month which amount is not recorded in the books, $50.00; Mr. Watson has decided to provide for Bad Debts to the extent of $60.00 by crediting a Reserve Account; Depreciation on Furniture & Fixtures is estimated at $110.00.

From the above Trial Balance and data given below, the Working Sheet would be made after a number of adjustments had been made so that the Nominal Accounts will show the true expenses for the past accounting period only.

The student must bear in mind that in the above Trial Balance the Inventory Account of $10,000 is a Ledger account. It represents the value of stock on hand at the beginning of the *present financial year*. It must not be confused with the Present Inventory, which is not a Ledger account but a memorandum entered below the Trial Balance.

By examining the Trading Accounts, the pupil will note that Chas. Watson at the beginning of the present year had Merchandise on hand, $10,000. The Merchandise

purchased during the year was $20,100, of which he returned goods to the value of $100 as is shown by his Purchase Rebates and Allowances Account. His Purchase Account as it now stands does not show the actual amount purchased. To correct this account he would close the Purchase Rebates & Allowances Account into the Purchase Account and thus show the true Purchases. The Journal entry would be as follows:—

Purchase Rebates & Allowances, Dr.	$100	
Merchandise Purchases, Cr.		$100

When this entry has been posted, the Purchase Rebates & Allowances Account will balance and the Merchandise Purchases Account will show a debit of $20,100 and a credit of $100, or a balance of $20,000, the actual amount of the Purchases.

The Sales Account requires a similar adjusting entry, for although this account shows a gross sales of $40,200, the actual amount of sales is less than this figure by the amount of goods returned to Mr. Watson by his customers. This amount is shown by the Sales Rebates & Allowances Account to be $200. A Journal entry as follows will be necessary:—

Merchandise Sales, Dr.	$200	
Sales Rebates & Allowances, Cr.		$200

When this entry has been posted, the Sales Rebates & Allowances Account will balance and the balance of the Merchandise Sales Account or true Net Sales will be $40,000.

The student's attention should next be directed to the adjusting of the Nominal Accounts which show purchases for supplies which have *not* been used up in this financial period and which still remain on hand. These supplies are sometimes called *Sundry Resource Inventories*, but from previous experience the student has learned to collate them under the heading of Deferred Charges. In order to open a Deferred Charges Account to represent these assets in the Ledger and to adjust the Nominal Accounts so that each will show the true expense or cost for the past accounting period only, the following Journal entry will be necessary:—

Deferred Charges, Dr.	$275	
Warehouse Supplies, Cr.		$ 15.00
Light, Fuel & Water, Cr.		60.00
Office Supplies, Cr.		50.00
Insurance, Cr.		100.00
Taxes, Cr.		50.00

When this journal entry has been posted, the Deferred Charges Account will show a debit balance of $275. This is an asset and represents the extent to which these Nominal Accounts might be considered Real Accounts. When the items have been posted, the Nominal Accounts will show the true cost of each for the past accounting period only, the balance of materials on hand having been transferred to the Deferred Charges Account will remain in that account until the opening of the succeeding financial year, *when each item will again be transferred back to its proper Nominal account and the cost of these items will next year be charged where they properly belong, that is, in the financial year in which they are consumed.*

Another account requiring adjustment is Rent. There is rent due to Mr. Watson and not recorded in his ledger which amounts to $40. This is an Accrued Asset and not a Deferred Charge. In order that the rent account may get credit for the amount it has produced during the complete financial year, it must be credited with the amount not yet recorded in the ledger, $40. The following Journal entry will adjust this item:—

Accrued Assets, Dr.	$40	
To Rent		$40

Chas. R. Watson
Working Sheet, (Date) .

	TRIAL BALANCE		ASSETS & LIABILITIES		TRADING & PROFIT & LOSS	
	Dr.	Cr.	Assets	Liabilities	Cost	Income
TRADING.						
Inventory (Beginn. of Period)	10,000 00					
Purchases	20,000 00					15,800 00
Freight Inward	200 00					
Sales		40,000 00				
Inventory (End of Period)			6,000 00			
PROFIT & LOSS.						
Selling:-						
Advertising	100 00				100 00	
Travellers' Salaries	4,600 00				4,600 00	
Warehouse & Delivery:-						
Delivery	300 00				300 00	
Warehouse Postage	50 00				50 00	
" Salaries	1,400 00				1,400 00	
" Supplies	60 00	15 00			45 00	
General Administrative:-						
C. R. Watson (Salary A/C)	1,000 00				1,000 00	
Collection & Exchange	45 00	10 00			35 00	
General Expense	70 00				70 00	
Insurance	420 00	100 00			320 00	
Light, Fuel & Water	80 00	60 00			20 00	
Office Postage	30 00				30 00	
" Salaries	2,500 00				2,500 00	
" Supplies	130 00	50 00			80 00	
Purchase Discounts		120 00				120 00
Rent	800 00	40 00			760 00	
Sales Discounts	140 00				140 00	
Taxes	150 00	50 00			100 00	
Telephone	30 00				30 00	
Depreciation	110 00				110 00	
Profit & Loss	60 00				60 00	
REAL ACCOUNTS.						
Cash	2,000 00		2,000 00			
Cash Petty Fund	50 00		50 00			
Accounts Receivable	30,000 00		30,000 00			
Accounts Payable		19,455 00		19,455 00		
Furniture & Fixtures	480 00		480 00			
Deferred Charges	275 00		275 00			
Accrued Assets	40 00		40 00			
" Liabilities		50 00		50 00		
RESERVES.						
Res. for Dep. on Furn. & Fix.		110 00		110 00		
Reserve for Bad Debts		60 00		60 00		
Capital		15,000 00				
	75,120 00	75,120 00	38,845 00	19,675 00	11,750 00	15,920 00
					4,170 00	
Capital 15,000 00					15,920 00	15,920 00
Add Net Profit 4,170 00						
Present Capital 19,170 00				19,170 00		
			38,845 00	38,845 00		

Illustration No. 95

Similarly Mr. Watson owes $50 for rent for a portion of the present month. This has not yet been recorded in the Ledger and must appear there in order that the Rent Account may show the exact cost of rent for this period, even though a portion has not yet been paid. The Journal entry to adjust this item would be as follows:—

Rent, Dr.	$50	
To Accrued Liabilities		$50

In order to write off Bad Debts to the extent of $60, Mr. Watson would make the following Journal entry:—

Profit & Loss, Dr.	$60	
Reserve for Bad Debts, Cr.		$60

Profit & Loss Account shows a cost of $60, while Reserve for Bad Debts is a negative asset account. A true asset of Accounts Receivable cannot now be shown except by considering the Accounts Receivable in conjunction with the Reserve for Bad Debts. Thus the true asset is the difference between the asset account, Accounts Receivable, and the negative asset account, Reserve for Bad Debts.

A Furniture and Fixtures Depreciation Reserve must be similarly created by the following Journal entry:

Depreciation, Dr.	$110	
Furniture & Fixtures Reserve for Depreciation, Cr.		$110

Depreciation will be an expense or cost, while Reserve for Depreciation on Furniture & Fixtures will be a negative asset and will bear the same relation to Furniture & Fixtures account as Reserve for Bad Debts bears to Accounts Receivable. The true asset of Furniture & Fixtures is not the balance of the Furniture & Fixtures account, but the difference between that account and the negative asset account, Furniture & Fixtures Depreciation Reserve.

When all these Journal entries have been posted, the Working Sheet may be prepared. In doing so, the accounts in the Trial Balance should not be left in their alphabetical order, but should be arranged in the order required by the Financial Statement which you have already prepared, namely, Trading Accounts, Profit & Loss Accounts, Real Accounts, Capital Account. The Working Sheet will appear as on page 118, illustration No. 95.

Illustration of method of Closing and Making a Proof Trial Balance from the Trial Balance in Ex. No. 1, page 123 (Steps Nos. 11, 12 and 13).

ACCOUNT *Capital (Proprietor)* ACCOUNT No

SHEET No. *1*

FORM 12

DATE	MEMO.	FOLIO	DEBITS	DATE	MEMO.	FOLIO	CREDITS
				19— Jan		*C7*	*10000 —*

Illustration No. 96

ACCOUNT *Purchases* ACCOUNT No

SHEET No *2*

FORM 12

DATE	MEMO.	FOLIO	DEBITS	DATE	MEMO.	FOLIO	CREDITS
19—	*Forward*		*13200 —*	*19— Dec 31*	*Trading*	*J14*	*16000 —*
Dec 31		*PJ5*	*2800 —*				
			16000 —				*16000 —*

Illustration No. 97

ACCOUNT *Sales* ACCOUNT No

SHEET No 2

FORM 12

DATE		MEMO	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
19— Dec	31	Trading	J14	25000 —	19—		Forward		20180 50
					Dec	31		R	4819 50
				25000 —					25000 —

Illustration No. 98

ACCOUNT *Cash* ACCOUNT No

SHEET No. 2

FORM 12

DATE		MEMO	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
19— Nov	30	Balance		2700 —	19— Dec	31		C12	2660 —
Dec	31		C11	3960 —			Balance		4000 —
				6660 —					6660 —
		Balance		4000 —					

Illustration No. 99

ACCOUNT *Expense* ACCOUNT No

SHEET No. 2

FORM 12

DATE		MEMO.	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
19—		Forward		8000 —	19— Dec	31	Profit & Loss	J15	10000 —
Dec	20		C4	2000 —					
				10000 —					10000 —

Illustration No. 100

ACCOUNT *Hamilton J. D. Limited* RATING F3 ACCOUNT No.

ADDRESS 197 Halam St. Winnipeg, Man. LIMIT 10000.00 SHEET No 2

FORM 20

DATE		MEMO.	DISC'T DATE	FOLIO	DEBITS	CREDITS	DR. BALANCE	CR. BALANCE
19—		Forward			6500 —			
Dec	12	30 d		146	1300 —			
"	26	30 d		197	200 —		8000 —	

Illustration No. 101

FORM 205

ACCOUNT Murphy & Co. A.G. RATING D+2 ACCOUNT No
ADDRESS 1213 Hastings St. Vancouver B.C. LIMIT 15000.00 SHEET No 5

DATE		MEMO.	DISC'T DATE	FOLIO	DEBITS	CREDITS	DR. BALANCE	CR BALANCE
19—								
Nov	15	30d		116	790 —			
"	26	30d		137	310 —		1100 —	
Dec	20	30d		171	4000 —			
"	26			C4		1100 —	4000 —	

Illustration No. 102

FORM 205

ACCOUNT Williams W.F. RATING ACCOUNT No
ADDRESS Regina, Sask. LIMIT SHEET No. 4

DATE		MEMO.	DISC'T DATE	FOLIO	DEBITS	CREDITS	DR. BALANCE	CR BALANCE
19—								
Nov	14			PJ2		2840 —		
"	28			" 4		3960 —		6800 —
Dec	20			C9	2000 —			
"	21			PJ6		450 —		5250 —

Illustration No. 103

FORM 205

ACCOUNT Arthurs F.A. Limited RATING ACCOUNT No
ADDRESS 47 Yonge St. Toronto LIMIT SHEET No 2

DATE		MEMO.	DISC'T DATE	FOLIO	DEBITS	CREDITS	DR. BALANCE	CR BALANCE
19—								
Sept	21			PJ6		4750 —		4750 —
Oct	15			C9	4750 —			
Dec	20			PJ11		1750 —		1750 —

Illustration No. 104

FORM 12

ACCOUNT Inventory ACCOUNT No
SHEET No

DATE		MEMO.	FOLIO	DEBITS	DATE	MEMO.	FOLIO	CREDITS
19—								
Dec	31	Trading	J18	2000 —				

Illustration No. 105

FORM 12

ACCOUNT *Trading Account* ACCOUNT No

SHEET No 1

DATE		MEMO.	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
19— Dec	31	Purchases	J17	16000 —	19— Dec	31	Sales	J17	25000 —
"	31	Gross Profit	J19	11000 —			Inventory	J15	2000 —
				27000 —					27000 —

Illustration No. 106

FORM 12

ACCOUNT *Profit & Loss* ACCOUNT No

SHEET No 1

DATE		MEMO	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
19— Dec	31	Expenses	J19	10000 —	19—		Gross Profit		11000 —
		Net Profit		1000 —					
				11000 —					11000 —

Illustration No. 107

FORM 12

ACCOUNT *Undrawn Profits or Undivided Profits* ACCOUNT No

SHEET No 1

DATE		MEMO.	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
					19— Dec		Profit & Loss		1000

Illustration No. 108

Proof Trial Balance

	Dr.	Cr.
Capital or Surplus:-		
Proprietors Acct. $10000.		
Undrawn Profits 1000.		11000 00
Cash	4000 00	
Hamilton J.D. Limited	8000 00	
Murphy & Co. A.G.	4000 00	
Williams W.F.		5250 00
Arthurs F.A. Limited		1750 00
Inventory	2000 00	
	18000 00	18000 00

Illustration No. 109

Exercises in Compiling Working Sheets from Trial Balances, Making Adjusting Entries, Closing, Ruling and Making Proof Trial Balance.

From the data given below, open accounts on ledger paper leaving sufficient space for ruling and closing.

Make the necessary journal entries to adjust the various accounts before closing. Post these entries.

Make a Working Sheet.

Make the journal entries necessary to close. Post these journal entries, close the necessary accounts, rule the accounts and make the proof trial balance.

Make a balance sheet and Profit & Loss Statement according to illustrations Nos. 51 and 52.

Exercise No. 1 is illustrated on pp. 119-122. Complete this exercise as instructed, following the instruction given in connection with the illustrations. When exercise No. 1 has been copied, complete Nos. 2, 3 and 4 in the same way.

☞ NOTE.—Do not enter these exercises in your regular Journal or Ledger. Procure special Journal Paper and Ledger Paper or additional Ledger Sheets so that these supplementary exercises may not conflict with the records of George Adams.

¶ 1. A. G. Burwell - Dec. 31st, 19 .

	Dr.	Cr.
Capital		$10,000.00
Purchases (Net)	$16,000.00	
Sales (Net)		25,000.00
Cash	4,000.00	
Expenses	10,000.00	
Accounts Receivable	12,000.00	
Accounts Payable		7,000.00
	$42,000.00	$42,000.00

Mdse. Inventory on December 31st, $2,000.

As A. G. Burwell is going out of business all materials have been sold and the proceeds credited to the proper accounts. This explains the absence of Deferred Charges, etc.

§ 146. After a Trial Balance has been completed preparatory to closing the books at the end of the financial period, it is optional on the part of the bookkeeper whether or not a Working Sheet be made. In actual business, this sheet is seldom prepared. Many of the best teachers recommend the preparation of a working sheet so that the student may have before him in one complete statement, a summary of the results of the business so that he can more readily appreciate the relation which each class of accounts bears to others. Whether or not the working sheet is prepared it is the duty of the bookkeeper to make the necessary closing entries.

As previously suggested, there are two different methods of closing the ledger: (1) the direct or red ink method; (2) the journal entry method. If the former method be adopted, all amounts entered to balance the accounts would be recorded in red ink. When these balancing amounts are carried to the other account affected, or brought below the rulings, the amounts would *then* be entered with black ink. The red ink method is not popular among practising accountants, therefore the journal entry method will be used in these exercises.

After the Working Sheet for Exercise No. 1 has been completed, the journal entries to close would be as follows:—

1. Trading Account, Dr.	$16,000.00	
Purchases, Cr.		$16,000.00
To close Purchases into Trading.		
2. Sales, Dr.	25,000.00	
Trading, Cr.		25,000.00
To close Sales into Trading.		
3. Inventory, Dr. (New Account)	2,000.00	
Trading, Cr.		2,000.00
To carry the goods into Trading.		
4. Trading, Dr.	11,000.00	
To Profit & Loss		11,000.00
To close Gross Profit into the Profit & Loss account.		
5. Profit & Loss, Dr.	10,000.00	
Expenses, Cr.		10,000.00
To close the expenses into Profit & Loss account.		
6. Profit & Loss, Dr.	1,000.00	
Undrawn Profits (or Capital), Cr.		1,000.00
To close the Net Profit into an undistributed profits account or to Capital account (see explanation, § 147).		

The Bookkeeper's next duty is to foot, and rule with red ink, all the accounts affected by the foregoing journal entries, balance and close any account which should at that time be balanced such as Capital or cash account, and make a Proof Trial Balance.

NOTE.—The detailed Financial Statements (Trading, Profit & Loss and Balance Sheet) which would be made after the Working Sheet has been completed, may be omitted in these exercises.

FORM 12

ACCOUNT *Capital (Proprietor)* ACCOUNT No.

SHEET No. 1

DATE		MEMO.	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
19– Dec	31	Present Capital		11000 —	19– Jan	1		C/1	10000 —
					Dec	31	Net Profit		1000 —
				11000 —					11000 —
					Dec	31	Present Capital		11000 —

Illustration No. 110

The above illustration shows the proper ruling and closing of the Capital Account if it is decided to transfer the Net Profit to the Capital Account instead of leaving the profit in some special account such as Undrawn Profits, as illustrated on page 122, No. 108.

§ 147. As the Net Profit of a business is at the disposal of the owner or partners, no definite rule can be given as to what entry shall be made with regard to this item. The profit may be withdrawn by the proprietor, which would result in the following entry:—Profit & Loss, Dr. / Cash, Cr.; it may be transferred to a special account such as "Undrawn

Profit" as illustrated on page 122, No. 108; it may be left in the Profit & Loss account and carried forward from year to year in this account; it may be transferred to a proprietor's "current" account—and there carried as an amount which will be drawn from the business at some future time—or it may be carried to the Capital Account as in illustration No. 110.

In all the cases suggested above, the Net Profit would properly be considered as added capital even though it might not have been transferred to the Capital account.

§ 148. **Ruling Personal Accounts.** Personal accounts should be ruled with a single red line at any time during the year when the account stands in balance. It is not necessary to foot or rule these accounts at the end of a month or even at the end of the financial year unless the ledger ruling does not provide a "balance" column. If the old standard ledger ruling is used, the personal accounts should be balanced, footed and ruled at the end of each financial period.

§ 149. **The Use of Red Ink.** All journal entries posted to the Ledger should be entered in Black Ink. All rulings should be in Red Ink. When the results of an account are carried from a completed account sheet to a second account sheet the new account sheet should be numbered immediately, and the footings of the completed sheet should be recorded in *Black Ink* after the words "Carried Forward" which should be written in black ink. These footings should be entered in black ink at the top of the new account sheet after the wording "Brought Forward." When an account is Balanced and ruled and the balance brought below the rulings the explanation and amount entered above the rulings to balance the account should be entered in *Red Ink,* but when the balance is transferred to its proper position below the rulings the explanation and amount should then appear in Black Ink. Red Ink is used to show a balance which is recorded in an account to equalize the footings and always indicates a figure which must be transferred to the opposite side of the account below the rulings *without* the introduction of a journal entry.

¶ 2. **Exercise in Closing No. 2**

Trial Balance.

Henry A. Rawlinson.

March 31, 19

	Dr.	Cr.
Capital		$15,000.00
H. A. Rawlinson (Salary)	$ 2,000.00	
Purchases (Net)	25,000.00	
Sales (Net)		26,800.00
Cash	1,000.00	
Selling Expense	5,000.00	
Warehouse & Delivery Exp.	2,000.00	
Gen. Administrative Exp.	4,000.00	
Accounts Receivable	15,000.00	
Accounts Payable		12,200.00
	$54,000.00	$54,000.00

Inventory $6,000.

Deferred Charges:--

Selling Expense	$100.00
Warehouse & Del. Exp.	50.00
Gen. & Administrative Exp.	70.00

¶ 3. **Exercise in Closing No. 3**

Trial Balance.

R. A. Turnwell--Dec. 31st, 19 .

	Dr.	Cr.
Capital		$20,000.00
R. A. Turnwell (Current Acc.)	$ 2,500.00	
Purchases	30,000.00	
Freight Inward	200.00	
Sales		45,000.00
Cash	5,000.00	
Cash Petty Fund	50.00	
Selling Expense:--		
Salaries	4,000.00	
Advertising	1,000.00	
Warehouse & Del. Exp.:--		
Salaries	1,000.00	
Delivery	500.00	
Supplies	200.00	
Gen. Administrative Exp.:--		
Salaries	2,000.00	
Insurance	400.00	
Rent	1,200.00	
Supplies	100.00	
Sundry Expenses	300.00	
Accounts Receivable	25,000.00	
Accounts Payable		8,450.00
	$73,450.00	$73,450.00

Mdse. Inventory, $8,000.00.
Warehouse Supplies on hand, $40.00.
Office Supplies on hand, $20.00.
Salaries Unpaid:--

Warehouse	$20.00
Office	40.00

Insurance Paid for succeeding Period, $50.00.

¶ 4. **Exercise in Closing No. 4**

Trial Balance.

John Gordon--Dec. 31st, 19 .

Capital		$20,000.00
J. Gordon (Current)	$ 4,000.00	
Inventory Account	21,000.00	
Purchases	19,200.00	
Pur. Rebates & Allowances		700.00
Freight Inward	300.00	
Sales		42,000.00
Sales Rebates & Allowances	500.00	
Cash	2,000.00	
Cash Petty Fund	50.00	
Furniture & Fixtures	2,000.00	
Accounts Receivable	10,000.00	
Accounts Payable		13,950.00
Insurance on Stock	500.00	
Purchase Discount		500.00
Sales Discounts	300.00	
Advertising	1,000.00	
Travellers' Salaries	4,000.00	
Warehouse Wages	2,000.00	
Warehouse Supplies	500.00	
Office Salaries	5,000.00	
Office Supplies	400.00	
Light, Heat & Water	1,000.00	
Rent	2,500.00	
Taxes	500.00	
Sundry Gen. Expense	400.00	
	$77,150.00	$77,150.00

Inventory, $18,000.
Supplies on Hand:--
  Coal, $400.00.
  Warehouse Supplies, $275.00.
  Office Supplies, $225.00.
  Advertising Material, $200.00.
Office Salaries due and unpaid, $20.00.
Travellers' Salaries Prepaid and Chargeable to the succeeding year, $100.00.

Provide for Depreciation of 10% on Furniture & Fixtures by opening a Reserve Account.

Provide for Bad Debts to extent of $300.00 by creating a Reserve Account.

COMPARATIVE STATEMENTS.

§ **150. Percentage in Trading & Profit & Loss Accounts.** It has been shown in the previous exercise that the Balance Sheet is intended to indicate the Capital or Wealth at the beginning of a financial period, the Profit or Wealth added to the Capital during that period, and the various forms in which the Wealth or Capital appears at the end of the period. The Trading & Profit & Loss Statements are expected to show the accounts which produce income and those which show deductions from income, or expenses. It shows the difference between the Gross Income earned or produced by trading, and the sum of the deductions or expenses, to be the Net Profit or Increase in Wealth.

While the Profit & Loss Statement is intended to show the earnings and expenses in dollars and cents, when compared with similar statements for previous periods it should also show the variations in earnings and expenses in the different years under inspection. Under normal conditions a certain Turnover or Net Volume of Sales should produce a certain amount of gross or net profit, and the same relation of gross profit, expenses and net profit to turnover should prevail from year to year. This comparison cannot be satisfactorily made in dollars and cents, but only on a percentage basis.

To illustrate: Suppose John Doe's turnover (net sales) for a certain year is $100, his gross profit $25, his expenses $15, and his net profit $10. If in the succeeding year his turnover were $200, it would be natural to suppose that his gross profit would be approximately $50, his expenses approximately $30, and his net profit approximately $20. If this were true, the percentage of gross profit, expenses and net profit on turnover would be the same each year. If the turnover of a business were the same figure each year, it would be a simple matter to compare the income and expenses with previous years. But as the turnover from year to year is very likely to fluctuate, a satisfactory comparison of expenses one year with another can be made only by figuring the percentage which each class of expense bears to the turnover and comparing this figure with the percentage which the corresponding class of expense in previous periods bears to the turnover of those periods. A comparison of percentages is of more value than a comparison of amounts.

Although percentages can be figured on prime cost or gross profit, the usual and most satisfactory method is to figure all percentages on turnover. By examining and comparing these percentages with those of previous years, the owner of a business can easily detect any irregularity in profits earned or excessive expense and can immediately set in motion the machinery which will either give a satisfactory explanation for such an expense, or stop the leak. For purposes of comparison, the Trading & Profit & Loss statements should be provided with columns so that the percentages for the year under inspection and those for previous years can appear opposite the class of accounts on which they are calculated.

Exercises on Finding Percentage on Turnover.

¶ 1. John Doe's turnover for the past 12 months is $100,000.00, his gross profit is $15,000.00, and his net profit $5,000.00. Find, 1st, the percentage of gross profit on turnover; 2nd, the percentage of net profit on turnover.

¶ 2. Find the percentage of gross profit, expense and net profit on turnover for the following:—

Net Sales	Gross Profit	Expenses	Net Profit
$200.000.00	$30,000.00	$10,000.00	$20,000.00
180,0.00.00	36,000.00	16,200.00	19,800.00

¶ 3. For the past five years, Joseph Brown has found his expenses to be 12% of his turnover. If he estimates his sales for the coming year at $216,000, at what amount must he estimate his expenses in order to maintain the same percentage?

¶ 4. Comment on the following profit and loss accounts from the standpoint of comparing profits and expenses:—

	1st Year	2nd Year
Turnover	$200,000	$250,000
Gross Profit	50,000	62,500
Selling Expense	12,000	30,000
Warehouse & Del. Exp.	6,000	7,500
Gen. & Administrative Exp.	8,000	10,000
Net Profit	24,000	15,000

EXAMINATION, SECTION 13.

1. Explain the terms (*a*) Financial Year; (*b*) Fiscal Period.
2. At what price is the merchandise on hand listed on inventory sheets?
3. Is it necessary to take a Physical Inventory at the end of a financial year? Why?
4. What are (*a*) Deferred Charges; (*b*) Accrued Assets; (*c*) Accrued Liabilities; (*d*) Deferred Credits?
5. Why is it necessary to consider supplies on hand on closing the books?
6. What is Depreciation?
7. Is it necessary to consider the depreciation on Assets on closing? Why?
8. How may the expenses sustained by depreciation be shown in the books on closing?
9. Explain Reserve for Depreciation.
10. On what side of the ledger will a Reserve for Depreciation appear?
11. Is Reserve for Depreciation an asset or a liability?
12. How would you provide for possible bad debts at the end of a fina period?
13. What is a Working Sheet?
14. How can the relative profits and expenses be most satisfactoriiy compared with those of previous periods if the sales are represented by different amounts?
15. Outline briefly the process of closing the ledger after a trial balance has been taken.

Section 14

Records of Geo. Adams—(Continued).

The student will again direct his attention to the work of his employer, Geo. Adams, who is about to close his books. The monthly Trial Balance has already been prepared. The various clerks have taken stock. The following summary has been placed in your hands:—

Merchandise Inventory	$17,526.94
Advertising Materials on hand at cost	120.00
Coal on hand at cost	24.00
Office Supplies on hand at cost	80.00
Warehouse Supplies on hand at cost	42.00
Travellers' Salaries prepaid	30.00
Insurance Premium paid for protection in succeeding year	136.00
Proportion of taxes paid which is attributable to succeeding year—3 months	20.00
Rent accrued and unpaid—3 months	150.00
Telephone account unpaid and not recorded	15.00
Provide for Reserves as follows:—	
Depreciation on Furniture & Fixtures	51.35
Bad Debts	36.40

Make the necessary Journal entries to adjust accounts requiring adjustment.

NOTE.—Do not forget the adjustment required in the Purchase Rebates and Allowances Account and Sales Rebates and Allowances Account. See § No. 145, page 117.

Have the Journal entries checked by your teacher, and if correct, post.

Closing the Nominal Accounts.

NOTE.—The student should rule his exercise book to represent a Journal and should make the entries suggested below in this exercise book and have his work verified by the teacher before making entries in his regular books.

Rule Each Account as it is Closed. Open a Trading Account in your General Ledger. By means of the following Journal entry close the Merchandise Purchases and Freight Inward into the Trading Account:—

Trading Account, Dr. / Mdse. Purchases, Cr.

Trading Account, Dr. / Freight Inward, Cr.

By means of the following Journal entry close the Merchandise Sales Account into the Trading Account:—

Merchandise Sales, Dr. / Trading Account, Cr.

By means of the following Journal entry carry the Merchandise Inventory into the Trading Account:—

Merchandise Inventory, Dr. / Trading Account, Cr.

NOTE.—Open the Merchandise Inventory Account in the General Ledger. Open a Profit and Loss Account in your General Ledger.

By means of the following Journal entry, close the Trading Account into the Profit & Loss Account:—

Trading Account, Dr. (Gross Profit) / Profit & Loss Account, Cr.

By means of Journal entries, close all the Nominal Accounts into the Profit & Loss Account as follows:—

Profit & Loss, Dr.	$ 62.00	
To Advertising		$ 62.00
Profit & Loss, Dr.	1,020.00	
To Travellers' Salaries		1,020.00
Profit & Loss, Dr.	25.50	
To Delivery Expenses		25.50
Profit & Loss, Dr.	11.00	
To Warehouse Postage		11.00
Etc.		

FORM 12

ACCOUNT *Purchase Rebates & Allowances* ACCOUNT No

SHEET No *1*

DATE		MEMO.	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
19— Sept.	*30*	*Mdse Pur*	*J5*	*233 —*	*19— June*	*7*		*J3*	*80 —*
					"	*7*		*J3*	*50 —*
					"	*8*		*J3*	*100 —*
					July	*10*		*J3*	*3 —*
				233 —					*233 —*

Illustration No. 111 **Purchase Rebates closed into the Purchases Account**

FORM 12

ACCOUNT *Sales Rebates & Allowances* ACCOUNT No

SHEET No *1*

DATE		MEMO.	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
19— June	*30*		*R*	*25 80*	*19— Sept.*	*30*	*Mdse Sales*	*J5*	*45 60*
July	*31*		*R*	*19 80*					
				45 60					*45 60*

Illustration No. 112 **Sales Rebates closed into the Sales Account**

FORM 12

ACCOUNT *Mdse-Purchases* ACCOUNT No.

SHEET No. 1

DATE		MEMO	FOLIO	DEBITS	DATE		MEMO	FOLIO	CREDITS
'19 Mar	31		PJ1	5168 —	'19 Sept	30	Pur Rebates	J.5	233 —
May	31		" 1	20162 —	"	30	Trading	"	61690 —
June	30		" 2	3950 —					
July	31		" 3	1419 —					
Aug	31		" 4	23489 —					
Sept	30		" 5	7735 —					
				61923 —					61923 —

Illustration No. 113

Purchases Account closed into Trading Account

FORM 12

ACCOUNT *Mdse-Sales* ACCOUNT No

SHEET No 1

DATE		MEMO	FOLIO	DEBITS	DATE		MEMO	FOLIO	CREDITS
'19 Sept	30	Sales Rebates	J.5	45 60	'19 Jan	31		R	1534 90
"	30	Trading	J16	64740 —	May	31		R	6739 60
					June	30		R	1149 70
					July	31		R	16968 50
					Aug	31		C8	190 80
					"	31		R	13761 40
					Sept	30		C9	216 —
					"	30		R	24224 70
				64785 60					64785 60

Illustration No. 114

Sales Account closed into Trading Account

FORM 12

ACCOUNT *Advertising* ACCOUNT No

SHEET No

DATE		MEMO	FOLIO	DEBITS	DATE		MEMO	FOLIO	CREDITS
'19 Aug	6		PJ8	40 —	'19 Sept	30	Deferred ch.	J.5	120 —
"	26		" 8	94 —	"	30	Profit & Loss	J6	62 —
Sept	17		C11	42 —					
"	30		PJ9	6 —					
				182 —					182 —

Illustration No. 115

Advertising Account, showing Cost transferred to Profit & Loss Account and the Asset transferred to Deferred Charges Account

FORM 12

ACCOUNT *Rent* ACCOUNT No

SHEET No

DATE		MEMO.	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
19–					19–				
Aug	15		C9	300 —	Sept	30	Profit & Loss		450 —
Sept	30	Accrued Lia.	J5	150 —					
				450 —					450 —

Illustration No. 116

Rent Account showing the Cost transferred to Profit & Loss Account and the Liability transferred to Accrued Liabilities Account

FORM 12

ACCOUNT *Deferred Charges* ACCOUNT No

SHEET No

DATE		MEMO.	FOLIO	DEBITS	DATE	MEMO.	FOLIO	CREDITS
19–								
Sept	30	Advertising	J5	120 —				
		Light F & W	J5	24 —				
		Office Supp.	J5	80 —				
		Warehouse "	J5	42 —				
		Insurance	J5	136 —				
		Taxes	J5	20 —				
		Trav. Sal.	J5	30 —				
				452 —				

Illustration No. 117 *** Deferred Charges Account after the Assets have been transferred to it from the Nominal Accounts**

FORM 12

ACCOUNT *Accrued Liabilities* ACCOUNT No

SHEET No

DATE	MEMO.	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
				19–				
				Sept	30	Rent	J5	150 —
					30	Telephone	J5	15 —
								165 —

Illustration No. 118 **Accrued Liabilities Account after the Liabilities have been transferred to it from the Nominal Accounts**

* NOTE.—The purpose of opening accounts such as Deferred Charges, Accrued Liabilities, etc., is to summarize and bring together in the ledger, under one heading, the various assets and liabilities of a similar nature. These accounts are opened on closing the books at the end of a financial period, and are immediately closed so that the various assets and liabilities are restored to the accounts from which they were originally taken. Some accountants do not consider it necessary to open accounts similar to Deferred Charges, Accrued Assets, Accrued Liabilities and Deferred Credits, and consider it sufficient to show these groupings of assets and liabilities in the Financial Statement only. If this plan is followed, these assets or liabilities will simply be brought below the rulings of the respective nominal accounts after they have been properly closed.

ACCOUNT *Trading Account* ACCOUNT No. SHEET No.

FORM 12

DATE		MEMO	FOLIO	DEBITS		DATE		MEMO.	FOLIO	CREDITS	
19— Sept	30	Mdse Pur	J16	61690	—	19— Sept	30	Mdse Sales	J16	64740	—
		Freight In		31	30	"	"	" Invt	J16	17526	94
		Gross Profit									

Illustration No. 119 The Trading Account properly Closed

ACCOUNT *Profit & Loss* ACCOUNT No. SHEET No.

FORM 12

DATE		MEMO.	FOLIO	DEBITS		DATE		MEMO.	FOLIO	CREDITS	
19— Sept	30	Bad Debts	J14	36	40	19— Sept	30	G. P. Trading			
"	30	Advertising	J16	62	—	"	30	Pur. Disct		360	11
		Trav. Sal.		1020	—						
		Del. Exp.		25	50						
		Warehse Post		11	—						
		" Sal.		391	—						
		" Supp.		51	37						
		Depreciation		51	35						
		Sales Disct		412	46						
		Net Profit									
								Net Profit			

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Illustration No. 120 The Profit and Loss Account

ACCOUNT *Mdse Inventory* ACCOUNT No. SHEET No.

FORM 12

DATE		MEMO	FOLIO	DEBITS		DATE		MEMO.	FOLIO	CREDITS	
19— Sept	30	Trading	J16	17526	94						

Illustration No. 121 The Merchandise Inventory Account after the Trading Account has been Closed

ACCOUNT *Cash* ACCOUNT No.

SHEET No.

DATE		MEMO.	FOLIO	DEBITS	DATE		MEMO.	FOLIO	CREDITS
19– Feb	28		CB2	10299 —	19– Apr	30		CB3	2528 —
Apr	30		" 2	467 —			Balance		8238 —
				10766 —					10766 —
		Balance		8238 —	May	31		CB5	901 07
May	31		CB4	517 —			Balance		7853 93
				8755 —					8755 —
		Balance		7853 93	June	30		CB7	5596 —
June	30		CB6	1364 90				" 7	470 19
							Balance		3152 64
				9218 83					9218 83
		Balance		3152 64					

FORM 12

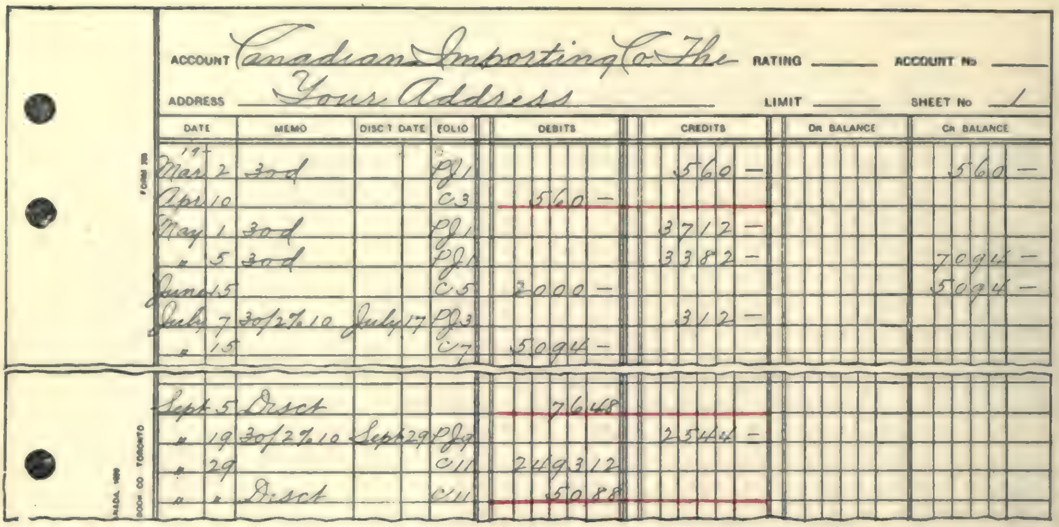
Illustration No. 122 **The Cash Account, showing proper Monthly Ruling and Closing to June 30**

ACCOUNT *Andrews C.R.* RATING ACCOUNT No.

ADDRESS *559 Bank St., Ottawa, Ont.* LIMIT SHEET No. *1*

DATE		MEMO.	DISC'T DATE	FOLIO	DEBITS	CREDITS	DR. BALANCE	CR. BALANCE
19– Jan	6	30d		7	180 50			
"	12	30d		15	205 —		385 50	
Feb	3			C2		100 —	285 50	
Apr	10			C2		50 —	235 50	
May	1	30d		19	151 20			
Aug	4	Disct		C8		43 80		
"	22	30/2%10	Sept 1	75	321 —		321 —	
Sept	1			C10		314 58		
"	1	Disct		C10		6 42		
"	5	30/2%10	Sept 15	87	330 —			
"	15			C10		323 40		
"	15	Disct		C10		6 60		
"	21	30/2%10	Oct 1	108	800 —		800 —	

Illustration No. 123 **A Personal Account Rec. in the Sales Ledger, showing the proper ruling**



ACCOUNT Canadian Importing Co. The RATING ______ ACCOUNT No ______

ADDRESS Your Address LIMIT ______ SHEET No 1

DATE		MEMO	DISC'T DATE	FOLIO	DEBITS	CREDITS	DR BALANCE	CR BALANCE
19—								
Mar	2	30d		PJ1		560 —		560 —
Apr	10			C3	560 —			
May	1	30d		PJ1		3712 —		
"	5	30d		PJ1		3382 —		7094 —
June	15			C5	2000 —			5094 —
July	7	30/2%10	July 17	PJ3		312 —		
"	15			C7	5094 —			
Sept	5	Disct			76 48			
"	19	30/2%10	Sept 29	PJ7		2544 —		
"	29			C11	2493 12			
"	"	Disct		C11	50 88			

Illustration No. 124 A Personal Account Payable in the Purchase Ledger, showing the proper ruling

In practice it is customary to make a compound Journal entry as illustrated below for the closing of the various nominal accounts into the Profit & Loss Account. This plan overcomes the necessity of making numerous journal entries. If the compound journal entry is adopted, the various items should appear in the Profit & Loss Account so hat it will correspond with the profit and loss statement.

Profit & Loss, Dr.

To Advertising
" Travellers' Salaries
" Delivery Expenses
" Warehouse Postage
" " Salaries
" " Supplies
etc.

Balance and rule the Profit & Loss Account by entering the Net Profit on the debit side in Red Ink.

Rule the account and bring the balance (Net Profit) below the rulings to the credit side in Black Ink.

If George Adams intended to continue as sole proprietor of his business, this Net Profit would be carried to an account called "Undrawn Profits" and with the "Capital" account would constitute the capital of the business. Since, however, he has decided to enter into partnership with Henry Gordon, he has decided to withdraw sufficient of the profits to bring the total capital in the business down to $25,000, and, instead of carrying the proportion of the net profits to be left in the business into an "Undrawn Profits" account, to carry it direct to Capital Account. As there is now a bank overdraft, the amount of net profit to be withdrawn from the business will be credited to "George Adams"

current account to be withdrawn by him in cash as soon as the partnership agreement has been completed.

Make the necessary explanation and Journal entry to carry out the suggestion above.

Have the above Journal entry verified and post to the Ledger.

By means of the following Journal entry, return to their proper accounts the Deferred Charges and Accrued Liabilities:—

Advertising	$120.00	
Light, Fuel & Water	24.00	
Office Supplies	80.00	
Warehouse Supplies	xx.xx	
Insurance	xxx.xx	
Taxes	xx.xx	
Travellers' Salaries	xx.xx	
To Deferred Charges		$xxx.xx
Accrued Liabilities, Dr.	$xxx.xx	
To Rent		$xxx.xx
" Telephone		xx.xx

Have the above entry verified and post. When posting, itemize the entries in the Deferred Charges Account and Accrued Liabilities Account.

Make a Proof Trial Balance to insure the balance of your Ledger before making entries for the ensuing financial period.

Make a statement of the Insurance carried on Stock.

Make the usual Financial Statements (Trading, Profit & Loss and Balance Sheet). On the Trading & Profit & Loss Statements show the percentage on Turnover for the Gross Profits, Expense Groups and Net Profit. In making the Balance Sheet, group the Assets and Liabilities as follows:—

Assets.

1. Quick or Current (sometimes called Liquid, Floating or Circulating).
2. Fixed Assets.
3. Other Assets (Deferred Charges, etc.).

Liabilities & Capital.

1. Floating or Current.
2. Other Liabilities (Accrued Liabilities, etc.).
3. Surplus:—

    (*a*) Capital (Original).

    (*b*) Undrawn or Undivided Profits.

NOTE.—On the Balance Sheet each reserve should be deducted from the account for which it was created.

EXAMINATION, SECTION 14.

1. Name the Accounts which should be closed into the Trading Account.
2. What is the result of the Trading Account called?
3. Give synonymous terms for "Profit & Loss."
4. Make a schedule showing the usual classification of Nominal Accounts in a Profit & Loss Statement.
5. Explain two methods of dealing with Deferred Charges and similar accounts on closing.
6. If the total assets are greater than the total liabilities of a balance sheet, what is the result called?
7. In what account or accounts may this result appear in the Ledger?
8. If a merchant has made a profit during a financial period, how will it affect his capital?
9. If the net result or difference between the assets and liabilities at the end of a financial period is less than at the beginning of the period, what is the result called?
10. How can a merchant determine the profit or loss for a financial period?
11. If a loss has been sustained during a financial period, what effect will it have on the capital?
12. Can the capital be decreased in any other way?
13. What are "closing entries?"
14. After the Nominal Accounts have been closed, what do the remaining debit and credit balances in the ledger represent?
15. What is a Proof Trial Balance?

Section 15

BILLS OF EXCHANGE AND PROMISSORY NOTES.

An Act of Parliament of the Dominion of Canada relating to Bills of Exchange, Checks and Promissory Notes, known as Bills of Exchange Act, defines a Bill of Exchange as follows:

§ **151. A Bill of Exchange** is an unconditional order in writing, addressed by one person to another, *signed by the person giving it, requiring the person to whom it is addressed to pay,* on demand or at a fixed or determinable future time, *a sum certain* in money, to or to the order of a specified person, or to bearer.

The word "Bill" may be used in a great many senses and is capable of numerous interpretations. We speak of a "Bill of Fare" meaning a menu, a "Bill of Sale" meaning a formal paper transferring goods or chattels to another. We refer to a poster or placard advertising anything as a "Bill," hence the term "Billboard." A Bill in a commercial sense may be an invoice or account of goods sold or services rendered, hence we speak of "Billing" meaning the process of making invoices. We speak of a lawyer's or grocer's bill, the former meaning an account for services rendered and the latter for goods sold. You must now learn to consider the term "Bill" in a slightly different sense, while studying and recording in your books a class of commercial paper which is new to you and which is described above as a Bill of Exchange. In certain financial circles, the term is abbreviated and instead of the Bill of Exchange, the simple term Bill is used. If a grocer were speaking of his bills, he would no doubt have reference to his accounts with his customers, but if a banker were speaking of "bills," he would in all probability have reference to Bills of Exchange. The student must in future be careful to remember that the meaning of the term "Bill" will depend entirely upon the connection in which the word is used. See illustrations No. 2, 5, 125 and 131.

§ **152. An Inland Bill of Exchange** is a bill which is either drawn and payable in Canada or drawn within Canada upon someone residing in Canada.

§ **153. A Foreign Bill of Exchange** is any other than an Inland

§ **154. Draft.** A Bill of Exchange other than a Check is known in business as a Draft.

§ **155. Bills of Exchange may be classified** as follows:—1st, Check; 2nd, Bank Draft; 3rd, Sight Draft; 4th, Demand Draft; 5th, Time Draft—(*a*) Drawn after date; (*b*) Drawn after Sight.

§ **156. Exchange.** The term "Exchange" is used by business men in a loose sense. In your work you have already learned to understand exchange as the charge made by a bank for cashing a check. This is quite correct as banks record the income derived from such a service to Exchange Account. In the United States the term Exchange is used to represent a draft drawn by one bank on another, hence they speak of Exchange on New York or Exchange on Chicago meaning the purchase of a draft or bill of exchange on New York or on Chicago. In the first sense it is used as the name of a ledger account, which is intended to show the cost of services rendered to us by banks in cashing checks and in selling drafts which may be sent by us to our creditors in settlement of debts in other localities. In the second sense, it is used as the name of a draft issued by a bank to a customer.

The true meaning of exchange is the payment of obligations in one place by the transfer of a credit from another and it is really the cost of such a transfer which is charged to Exchange account. Exchange may be divided into inland or domestic exchange and foreign exchange, but the same principles govern both. Inland represents the transfer of funds between points in the same country, usually through the medium of checks and bank drafts. Foreign represents a similar transfer between countries. Inland exchange

so far as Canada is concerned is calculated in dollars and cents, but in dealing with exchange on Great Britain it is necessary to convert dollars and cents into pounds, shillings and pence Foreign exchange is dealt with more fully on page 148.

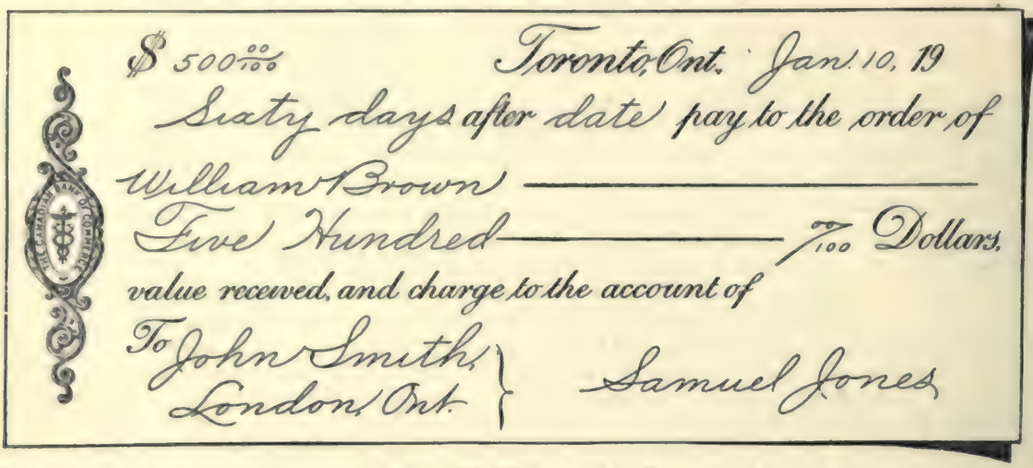

$500 00/100 Toronto, Ont. Jan. 10, 19
Sixty days after date pay to the order of
William Brown
Five Hundred 00/100 Dollars.
value received, and charge to the account of
To John Smith, London, Ont. } Samuel Jones

Illustration No. 125 **Draft or Bill of Exchange (Inland)**

§ 157. The Original Use of a Bill of Exchange. The illustration above shows a form of Bill of Exchange or Draft in which the Drawer (the person who draws the Draft), the Drawee (the person on whom the Draft is drawn), and the Payee (the person in whose favor the Draft is drawn) are three different parties.

While this draft conforms in every particular with the legal definition, it is one which is seldom if ever now used in business and is illustrated above *not* to serve as an example of the present day draft but to give the pupil a clear idea of the parties to a draft and the circumstances which originally gave rise to the issue of such a paper.

With reference to the above illustration the circumstances may be outlined as follows:

Jones (Drawer) owes Brown (Payee) $900. Smith (Drawee) owes Jones $900. To cancel Jones' debt with Brown he draws a draft on Smith ordering Smith to pay this amount to Brown (Payee). This draft would be forwarded to Smith the Drawee, who if he acknowledges the debt to Jones would write across the face of the draft *his acceptance* or his written assent to comply with the conditions of the draft. This acceptance would read as follows:

Accepted....(date)...

Payable at...................

(Signed) Smith

Illustration No. 126

For proper form of Acceptance, see illustration No. 132.

This paper after it has been accepted is usually known as an "Acceptance." The Drawee of a bill by the form of acceptance usually makes his acceptance payable at his bank.

§ 158. Present Use of Bill of Exchange. While *the above routine* gives an outline of the Draft as it was originally used, it is seldom that the old time draft is now used in which the Payee is one to whom money is due. The Draft of to-day is largely used as a means of collecting a debt and is therefore drawn by the Drawer on the Drawee *in favor of the bank in which the Drawer keeps his account.* See illustration No. 132.

§ 159. A Draft is said to be drawn *by* the Drawer *on* the Drawee *in favor of* the Payee.

§ **160.** The **Parties** of a Draft are as follows: 1st, the Drawer, the person who draws the bill, *i.e.*, writes the bill and signs it as an order on the person to whom it is addressed; 2nd, the Drawee, the person on whom the bill is drawn (when he accepts the bill he is called the Acceptor and the Draft is said to be his *Acceptance*); 3rd, the Payee, the person to whom the money is payable. In modern business, the Drawer and the Payee is the same person or the bank of the Drawer is made the Payee.

§ **161. Honor.** To honor a draft is to acknowledge the signature of the Drawer and the debt due by *accepting* the draft, *i.e.*, by writing an *acceptance* upon the face of the draft according to illustration No. 132. To honor an acceptance when due is the term applied to paying an acceptance at maturity.

§ **162. Dishonor** is the term applied to the refusal of the Drawee to accept a draft or the inability or refusal of an Acceptor to pay an acceptance when due.

§ **163. The Term or Tenor of a Bill** is the time for which it is drawn or the period of time after the expiration of which a bill falls due. The following are the usual Terms or Tenors: (*a*) On Demand; (*b*) at Sight; (*c*)........................after date; (*d*)............................ after sight.

§ **164. Maturity** is the date on which a Bill of Exchange falls due or is legally payable.

§ **165. Terms Used to Designate Payment of a Bill.** A bill which is paid is said to be "honored," "taken up," "met," "retired" or redeemed.

§ **166. Retired** is the term usually applied to the payment of a bill before it is legally due and the allowance for interest upon such a prepayment is called a *Rebate.*

§ **167. To Renew a Bill** is to accept a new bill in place of a former one which the acceptor was unable to pay when it became due.

§ **168. Face Value** is the amount written on the face of the bill or the amount for which it is drawn.

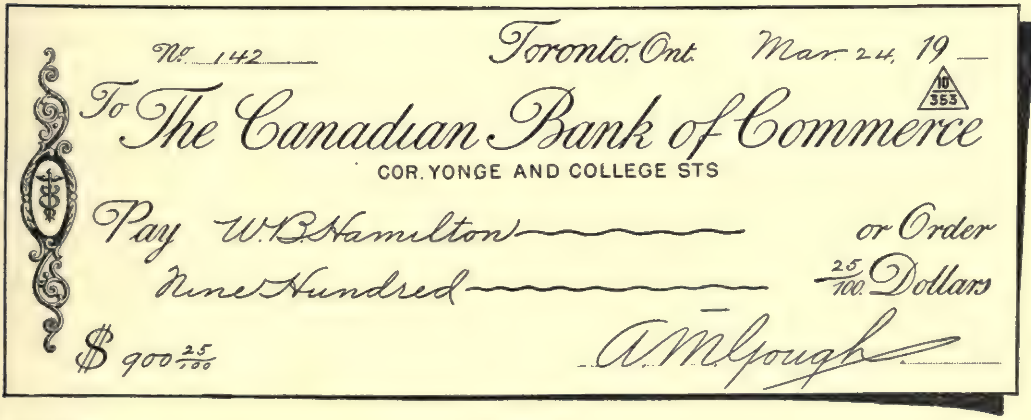


Illustration No. 127 **Check**

§ **169. A Check** is a Bill of Exchange drawn on a bank payable on demand. As checks are payable on demand, they are immediately convertible into money and are therefore always considered cash and are recorded in the Cash Book.

§ **170. General Acceptance.** Acceptances may be divided into two classes, General and Qualified. A *General Acceptance* is one in which the acceptor assents without qualification to the order of the drawer. The naming of the place of payment does not take it out of the general class.

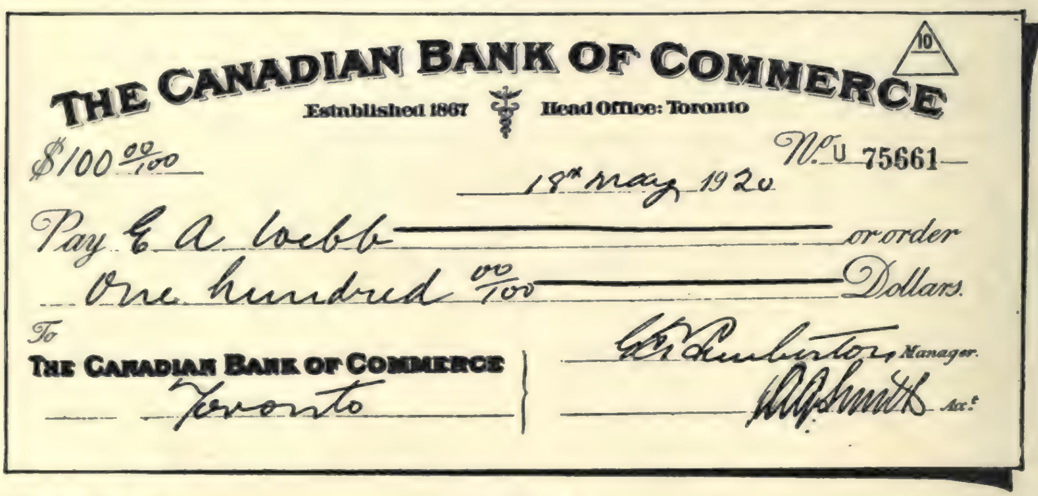
§ 171. **A Qualified Acceptance** is one which in expressed terms varies the effect of the bill as drawn. It may be Conditional, Partial, Qualified as to time, or Drawees. The holder of a bill may refuse to take a qualified acceptance. If he takes the qualified acceptance, it will bind the acceptor and all subsequent parties, but it will not bind those who have already drawn or endorsed the bill unless they have assented to it. When a bank secures a qualified acceptance to a bill, they invariably ask for the assent to this acceptance by the drawer. If the bank were to accept the qualified acceptance without such assent, the drawer and subsequent endorsers (if any) are discharged from their liability on the bill. An acceptance to pay at any particular specified place is not on that account a qualified acceptance.

Examples of Qualified Acceptances are as follows:—

1. Conditional—Accepted subject to delivery of Bills of Lading.
2. Partial—(Assuming that the bill was drawn for $150). Accepted for $100 only.
3. Qualified as to Time—(Assuming that the bill is drawn for one month). Accepted payable in three months.
4. Drawees— (assuming that the bill was drawn on John Brown and John Doe) Accepted payable at the Bank of Commerce, Yonge & College Sts., signed by John Brown.

§ 172. **A Marked or Certified Check** is one the amount of which has been set aside for the Payee by the bank upon which the check is drawn.

§ 173. **A Bank Money Order** is an order or check drawn by a bank on one of its branches in favor of the bearer of the order. Like an Express Money Order it is used as a means of transferring funds of $50 and under from one place to another.



10

THE CANADIAN BANK OF COMMERCE

Established 1867 Head Office: Toronto

$100 00/100 No. U 75661

18th May 1920

Pay E. A. Webb or order

One hundred 00/100 Dollars

To

The Canadian Bank of Commerce

Toronto

Manager.

Acct

Illustration No 128 Bank Draft

§ 174. **A Bank Draft** is a Bill of Exchange drawn by a bank on one of its branches or on one of its correspondents. This draft is sold to persons who wish to send money from one place to another. They are used for the same purpose as the Bank Money Order or Express Money Order which are issued in amounts up to $50 only. By the payment of Exchange, Bank Drafts are made payable at par at any point.

§ 175. **Bank Money Orders** may be made payable at par in Canada only. The amount paid for the purchase of such a draft is charged to Collection & Exchange.

In buying a Bank Draft it is necessary for the purchaser to make a requisition form, which is illustrated on page 143.

THE CANADIAN BANK OF COMMERCE

_______________ 191

Required *a* _________ *Draft on* _________

In favour of _______________

For the sum of _______________

No. _______________ *Par $*

Exchange _________ *per c. $*

Checked by _________

Applicant _______________ $ _________

Illustration No. 129 Requisition Form

§ **176. A Correspondent** in a Commercial sense is one who carries on commercial intercourse by letter or telegram with a person or firm at a distance.

§ **177. A Sight Draft** is a Bill of Exchange which is drawn payable at sight. This paper is used to collect the payment of an account which is due. The draft is usually drawn in favor of the bank in which the Drawer keeps his account. It is either deposited in the same manner as a check or is left at the bank for collection. The usual procedure is to credit the Drawee when the draft is drawn and to deposit the draft in the bank assuming that as the debt is due, the paper will be honored upon presentation and at maturity. When a Sight Draft is left at the bank for deposit, the Drawer is immediately given credit in his account for the amount of the Draft less exchange unless exchange be paid. I

NO PROTEST
TAKE THIS OFF BEFORE PRESENTING

$ 1851 67/100 Montreal, Que., Apr. 25, 19 No. _________ Due _________

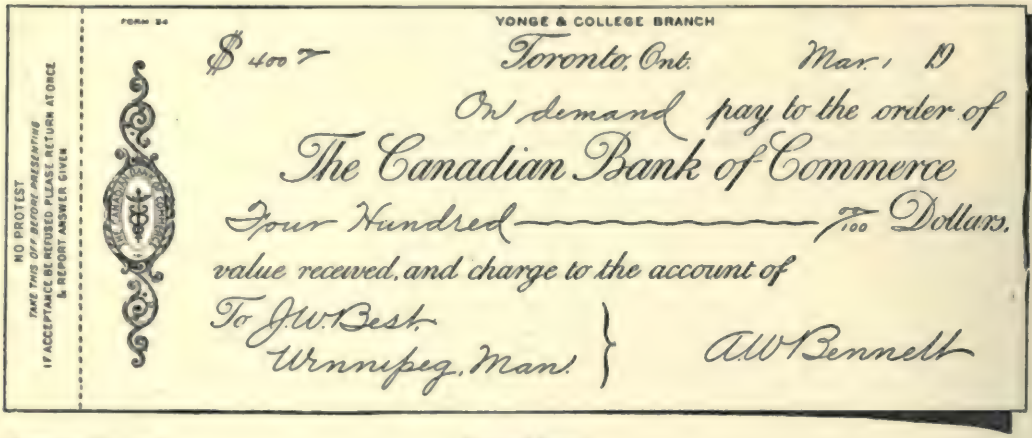
At sight ~~after date~~ pay to the order of Bank of Montreal, Carlton Street Branch the sum of Eighteen Hundred and Fifty one — 67/100 Dollars

Value received and charge the same to account of

To Arthur Brown & Co., Edmonton, Alta. C. D. Kennedy

Illustration No. 130 Sight Draft

exchange be paid out of Petty Cash, he is given credit for the face value of the draft. If a Sight Draft is left at the bank for collection, the drawer is not given credit for the amount of the draft until it has been collected by the bank. When a Sight Draft is deposited or left for collection, it is forwarded by the bank to one of its branches or to a correspondent situated in the town or city on which the draft is drawn. Notification is then given by the bank to the payee asking for his acceptance. In large towns and cities a bank messenger will present the draft to the drawee for his acceptance but in small towns the drawee is notified by a letter. If the drawee accept the draft, it is held for three days after the date of acceptance when it is collected usually at the bank in which the drawee keeps his account.



NO PROTEST
TAKE THIS OFF BEFORE PRESENTING
IF ACCEPTANCE BE REFUSED PLEASE RETURN AT ONCE & REPORT ANSWER GIVEN

FORM 34

YONGE & COLLEGE BRANCH

$400 — Toronto, Ont. Mar. 1 19

On demand pay to the order of
The Canadian Bank of Commerce
Four Hundred —— 00/100 Dollars,
value received, and charge to the account of

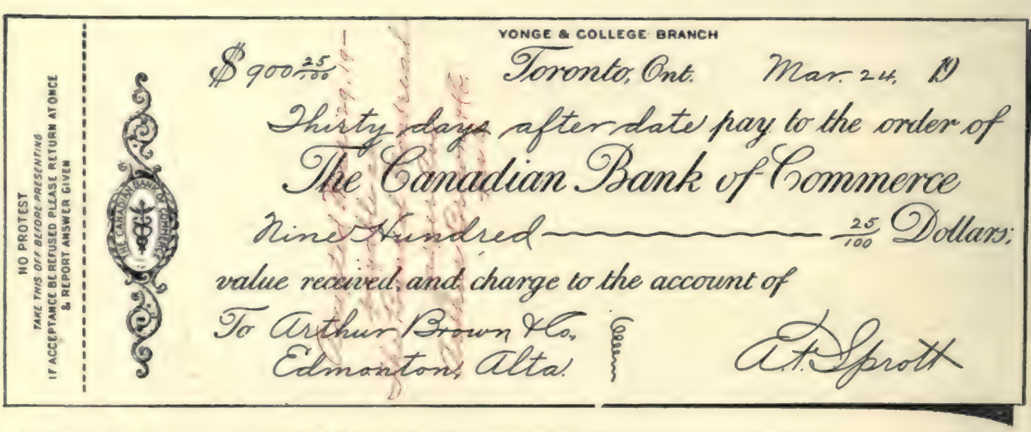
To J. W. Best,
Winnipeg, Man.

A. W. Bennett

Illustration No. 131 Demand Draft

These three days are called "Days of Grace," and a Sight Draft does not fall due until three days after date of acceptance. Notification of the payment of the draft is then made to the bank in the place in which the draft originated and upon receipt of this notification if the draft is one which has been left for collection, the bank credits the amount less exchange to the account of the drawer.

§ 178. **Days of Grace** are three days added to the time of payment as fixed by a Bill of Exchange. The bill is due on the last day of grace. Days of grace are not allowed on Bills of Exchange which are payable on demand, *i.e.*, Demand Drafts or Checks.



NO PROTEST
TAKE THIS OFF BEFORE PRESENTING
IF ACCEPTANCE BE REFUSED PLEASE RETURN AT ONCE & REPORT ANSWER GIVEN

YONGE & COLLEGE BRANCH

$900 25/100 Toronto, Ont. Mar. 24 19

Thirty days after date pay to the order of
The Canadian Bank of Commerce
Nine Hundred —— 25/100 Dollars;
value received and charge to the account of

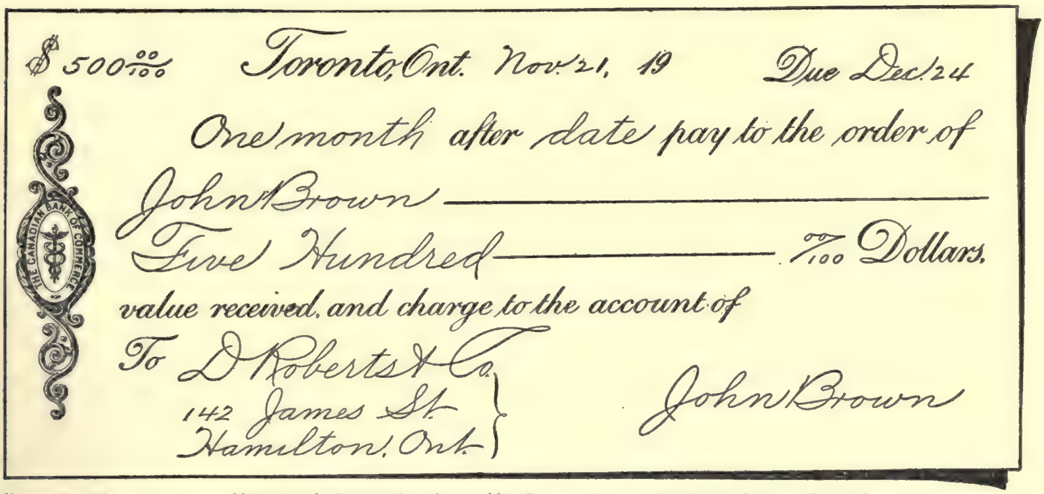
To Arthur Brown & Co.,
Edmonton, Alta.

A. T. Sprott

Illustration No. 132 Time Draft drawn "after date," illustrating proper form of Acceptance

§ 179. **A Demand Draft** is a bill of exchange drawn payable on demand or presentation. Days of grace are not allowed on a Demand Draft. In every other particular it is similar to a Sight Draft. Demand Drafts are seldom used in Canada. In the United States days of grace are not allowed on drafts, therefore a Sight Draft in that country would be the same as a Demand Draft in Canada. In United States, Demand Drafts are not used.

As a Demand Draft is convertible into money on demand, for purposes of Bookkeeping it is usually considered as cash and is recorded in the Cash Book.


$500 00/100 Toronto, Ont. Nov. 21, 19 Due Dec. 24

One month after date pay to the order of

John Brown

Five Hundred 00/100 Dollars.

value received, and charge to the account of

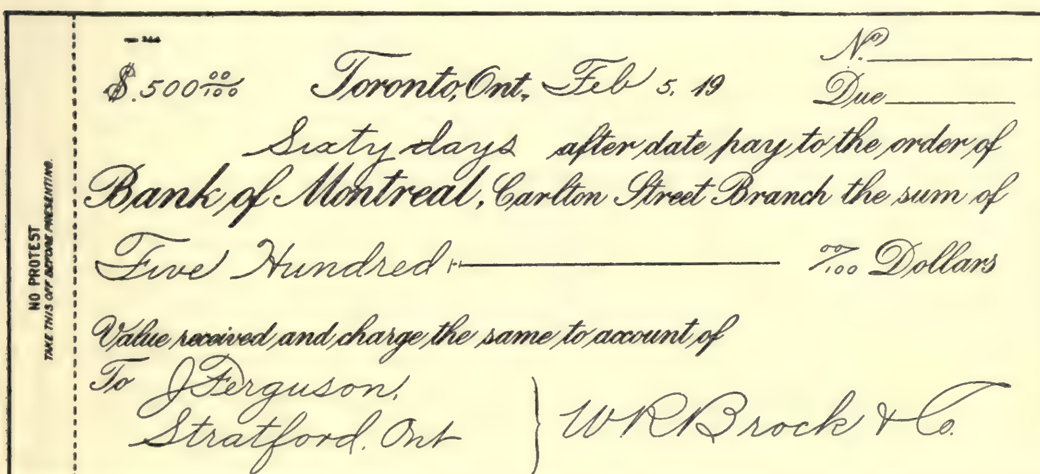
To D. Roberts & Co.
142 James St.
Hamilton, Ont.

John Brown

Illustration No. 133 Time Draft drawn after date. The Drawer has made this Draft payable to himself. The Draft would be indorsed to the Drawer's bank when lodged for collection or discount

§ **180. A Time Draft** is a Bill of Exchange payable at a fixed or determinable future time after date or sight, or at a fixed period after the occurrence of a specified event which is certain to happen, although the time of happening is uncertain.

§ **181. Due Dates.** When drafts are drawn payable at a fixed period after *sight*, the due date is determined by the date of acceptance. When a draft is drawn on a fixed period after *date*, the due date is determined by the date of the bill. In each case three days of grace are added to the term of the bill and the bill falls due on the last day of grace.


No. ____

$500 00/100 Toronto, Ont. Feb. 5, 19 Due ____

Sixty days after date pay to the order of

Bank of Montreal, Carlton Street Branch the sum of

Five Hundred 00/100 Dollars

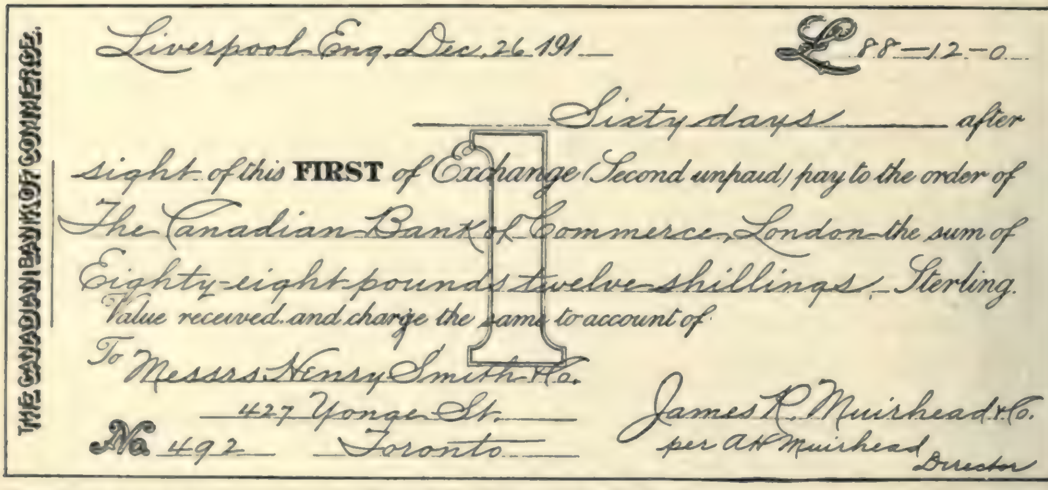
Value received, and charge the same to account of

To J. Ferguson,
Stratford, Ont

W. R. Brock & Co.

Illustration No. 134 Time Draft drawn after date. The Drawer has made his bank the Payee so that an indorsement would not be necessary when lodging this paper in the bank for collection or discount

In reckoning the due date, the term *month* if used shall mean a calendar month and every bill which is made payable a month or months after date becomes due on the same numbered day of the month in which it is payable as the day on which it is dated (unless there is no such date in the month in which it is made payable, in which case it becomes due on the last day of the month) with the addition of three days of grace. Whenever the last day of grace falls on a legal holiday, then the day following shall be the last day of grace.


THE CANADIAN BANK OF COMMERCE

Liverpool Eng. Dec. 26 191_ £88-12-0

Sixty days after sight of this **FIRST** of Exchange (Second unpaid) pay to the order of The Canadian Bank of Commerce, London the sum of Eighty-eight pounds twelve shillings, Sterling.

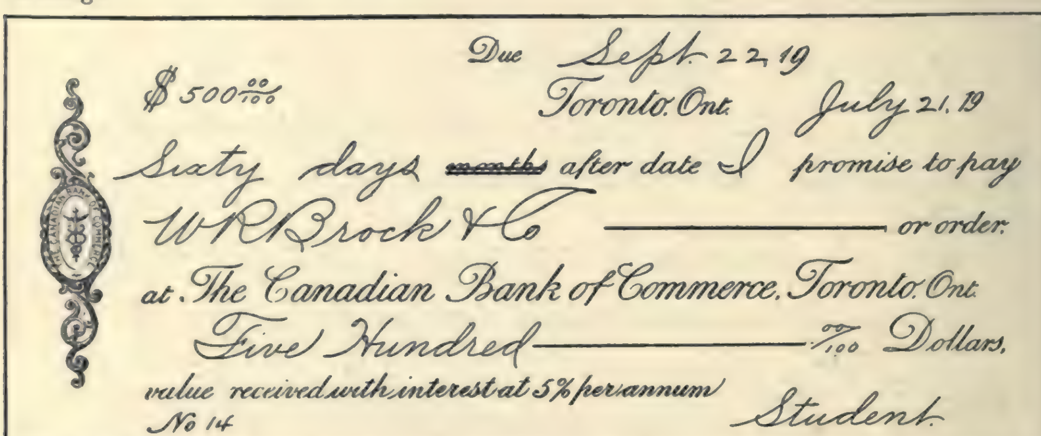
Value received and charge the same to account of

To Messrs. Henry Smith & Co.
427 Yonge St.
No. 492 Toronto

James R. Muirhead & Co.
per A.H. Muirhead Director

Illustration No. 135 Foreign Bill of Exchange (Foreign Draft)

§ 182. **A Foreign Bill of Exchange** is a bill of exchange other than an Inland. It is drawn by a person residing abroad on one resident in Canada, or one drawn by a resident in Canada on a person residing abroad. Years ago when methods of transportation were not so safe as at the present, these bills were drawn in sets of three and, to overcome the possibility of loss in transmission, were forwarded to the drawee either by different routes or at different times. One of the set only was accepted. In recent years the practice of drawing Foreign Bills in sets of three is being gradually discontinued and the wording "at sight of this first of exchange (second and third of the same date and tenor)" now has been changed to read as follows: "At sight of this "sola" or "solo" of exchange."


Due Sept. 22, 19

$500 00/100 Toronto, Ont. July 21, 19

Sixty days ~~months~~ after date I promise to pay W R Brock & Co or order.

at The Canadian Bank of Commerce, Toronto, Ont.

Five Hundred 00/100 Dollars,

value received with interest at 5% per annum

No 14 Student.

Illustration No. 136 Promissory Note

§ 183. **A Promissory Note** is an unconditional promise in writing made by one person to another, signed by the maker, promising to pay at a fixed or determinable future time, a sum certain in money, to, or to the order of a specified person, or to bearer.

§ 184. **Maker.** The person who makes the note or promises to pay is called the Maker.

§ 185. **Payee.** The person in whose favor the note is drawn is called the Payee.

§ 186. **The Due Date** of a note is calculated in exactly the same manner as that of a time draft payable after date.

NEGOTIABLE INSTRUMENTS.

§ 187. **Negotiable** means capable of being transferred under certain conditions.

§ 188. **An Instrument** in a legal sense is a writing expressive of some act, contract, process or proceeding.

§ 189. **Negotiable Instruments** are those commercial papers the property in which is acquired by anyone who takes them *bona fide* and for value *notwithstanding* from whom he took them. The most common examples of documents to which the character of negotiability is attached are bank or government notes, checks, bills of exchange and promissory notes.

§ 190. **Negotiability of Bills of Exchange & Promissory Notes.** Negotiable Instruments may be transferred by *Delivery* or by *Endorsement and Delivery.*

§ 191. **Endorsement** is the wording which is written on the back of a negotiable paper by which the property is transferred to another. The words "or bearer" and "or order" written on the face of a bill or note determine the method by which the paper may be transferred.

§ 192. **Or Bearer.** Those bills payable to "bearer" are negotiable by delivery. Delivery means the transfer with the knowledge of the owner and cannot be construed to apply to the passing of a bill to another without the knowledge or against the wishes of the owner.

§ 193. **Or Order.** Those bills payable to "order" require endorsement *and delivery.*

§ 194. **Backing a Note.** Instead of the term "endorsing a note" the expression "backing a note" is frequently used by those unfamiliar with commercial terms.

§ 195. **Allonge.** An "allonge" is a slip of paper gummed or otherwise attached to a bill of exchange to accommodate additional endorsements after the back of the bill has been completely used up by endorsements.

§ 196. **Protest.** A protest is a formal document drawn up by a Notary Public setting forth that a bill or promissory note has not been honored. The advantage to the payee of protesting a dishonored bill is that the various endorsers are thereby held liable for payment of the instrument. It is not necessary to protest a bill on which there are no endorsements. It is not customary to protest a note or bill in the usual course of business therefore a "No Protest" slip is usually attached to all drafts and "No Protest" stamped on all checks received except in cases where legal action to hold endorsers liable is contemplated. Instead of using the no protest slips or stamps a general letter to the same effect is often given to the bank.

§ 198. **Endorsements.** As Bills of Exchange and Promissory Notes are negotiable instruments, they are frequently transferred from one person to another and when they are due they are not always in the possession of the original payee. The transfer of these papers is effected by *delivery* if drawn to bearer or by *endorsement* and *delivery* if drawn to order. Endorsements are written on the back of the paper, see illustration No. 40, and vary in form according to the wish of the holder of the paper when transferring it.

The following forms of endorsements are those most commonly used in business:—

John Doe

Illustration No. 137
Bank Endorsement

John Doe is by this endorsement held liable should the maker fail to pay at maturity and the paper is hereafter negotiable by delivery.

Pay to the order of
Henry Smith
John Doe

Illustration No. 138
Special Endorsement

This endorsement signifies the person to whose order the bill becomes payable and cannot be further negotiable unless it bears Henry Smith's signature.

Pay to the order of
Henry Smith
without recourse to me
John Doe

Illustration No. 139
Qualified Endorsement

This endorsement transfers the bill, but does not hold the endorser liable to succeeding holders of the paper. It is a form seldom used in business as such an endorsement would make the disposal of a bill very difficult. Instead of the words "without recourse," the words "sans recours" are sometimes used.

This endorsement is very seldom used in actual practice.

Pay to the order of
The Dominion Bank
Canada St. Branch
For Deposit Only
to the credit of
John Doe

Illustration No. 140
Special Restrictive Endorsement.
"For Deposit"

This endorsement, as the wording indicates, restricts the use of the paper to a specific purpose. It is the form which should be used on all negotiable papers which are recorded as cash. All such papers should be so endorsed as soon as they are received and not at the time of making a deposit.

Pay to the order of
The Dominion Bank
Canada St. Branch
For Collection
to the credit of
John Doe

Illustration No. 141
Special Restrictive Endorsement.
"For Collection"

This restrictive endorsement is used for negotiable papers to be collected. A similar form with the wording "for discount" may be used for all papers left for collection.

§ 199. Foreign Exchange. Exchange in this sense may be said to mean the conversion of monies of one country into the monetary terms of another. The unit of value in Canada is the dollar. The unit in Great Britain is the sovereign (£1). The relative value of each coin depends upon the weight of pure gold in each. By weight it has been established that one sovereign is equivalent to $4.86656 or $4.86 2/3. This is called the "par of exchange" between Canada and Great Britain. For various reasons too numerous to mention here, this relative value does not always prevail, not on account of any alteration in the gold value of each coin but owing to the trade balances between these countries. As a result, the pound varies from this standard value of $4.86 2/3, sometimes being

worth more, sometimes less. When it is at $4.86 2/3, it is said to be *at par;* if its value is greater than this, it is said to be at a *premium;* and if less, at a *discount.*

In order to further explain how the value of the pound will affect the records made in our books, let us consider a purchase of goods from Great Britain. Student buys from John Bull of London, England, goods valued at £100. For illustration purposes, let us assume that these goods come into Canada duty free. The goods are invoiced in the monetary terms of Great Britain £100. Student now owes John Bull $486.67 and it is natural (though not the business custom in this country, as will be explained later) to assume that that student would in his ledger credit John Bull with $486.67. The debt falls due and it is the student's duty to settle the debt in London. He may do this either by accepting John Bull's sight draft on student for £100 or by delivering to his bank in Canada sufficient money to purchase a sight draft on London for £100. If exchange on London were at par (selling rate), student would pay for this sight draft $486.67. If exchange were at a premium he would pay more than the above amount; if at a discount, less. To illustrate further, let us take the extreme condition which prevails on the date on which this article was written. Selling rate exchange on London is quoted at $3.90, which means that a debt of £1 in Great Britain or $4.86 2/3 can be settled by depositing with the bank in Canada the sum of $3.90; or again, that a sterling draft on London for £1 which will settle a debt of £1 in any part of Great Britain will cost in Canada only $3.90 including bank charges. If, therefore, student should settle his debt of £100 to-day he would be able to purchase a sterling draft on London at his bank in Canada *not* for $486.67 but for the sum of $390.00 including bank charges. His debt as entered in his ledger was $486.67. The debt was settled by the payment of $390.00. The difference, $96.67, which is a profit, is due to favorable exchange.

Although the above illustration is according to present exchange quotations, it may be considered an extreme case, as sterling exchange is very seldom quoted at such a great discount. The exchange on London has for many years been at a premium, so that prior to the war it was the custom of all merchants to convert their invoices from pounds, shillings and pence at $4.90, in order that the cost of exchange would be represented in the invoice cost of goods. When the debt was settled the difference between the par, $4.86 2/3 and the amount at which the invoice was extended, $4.90, would take care of the cost of exchange. By this plan the cost of exchange was represented in the inventory instead of in an exchange account. When, therefore, sterling exchange remains at a fixed premium varying very slightly from day to day, the merchant considers the cost of exchange as an item which forms a portion of the cost of his goods similar in every respect to Inward Freight and Duty.

§ 200. The Rate of Exchange is the market value of the monetary unit of one country estimated in the currency of another.

BOOKKEEPING CONNECTED WITH DRAFTS.

§ 201. Bank Draft. When a Bank Draft is received, treat it the same as you would a check. When a Bank Draft is purchased, debit the person to whom it is sent with the face value of the Draft. Debit Collection and Exchange with the cost of purchasing the draft. By recording the purchase of the draft in the Cash Book on the payment side, Cash is credited for the total cash paid.

Equivalent Journal entries to the above would be as follows:—

¶ 1. A Bank Draft received,

Cash, Dr.

The Remitter of Draft, Cr.

¶ 2. A Bank Draft remitted,

Creditor to whom Draft is remitted, Dr.

Exchange, Dr.

Cash, Cr.

§ **202. Demand Drafts.** When a Demand Draft is accepted by you, make a similar entry in the Cash Book to that which you would make for the issue of a Check, charging the drawer of the draft. When you draw a Demand draft on a customer, make an entry in the Cash Book similar to that which you would make for the receipt of a check from that customer.

Equivalent Journal entries to the above would be as follows:—

¶ 1. A Demand Draft accepted,

Drawer, Dr.
Cash, Cr.

¶ 2. A Demand Draft drawn on customer,

Cash, Dr.
Drawee, Cr.

§ **203. Sight Drafts.** When a Sight Draft is accepted, the drawee should debit the drawer. As the draft will in all probability be made payable at the bank of the drawee and will therefore be charged against his account immediately, he should credit cash, making a record in his Cash Book which would be equivalent to the following Journal entry: Drawer, Dr. / Cash, Cr.

A Sight Draft drawn on a customer may be recorded in the books of the drawer in one of two ways: 1st, It may be entered in the Cash Book, thus being recorded as cash. 2nd, It may be recorded in the Bills Receivable Book, thus being treated similar to a time draft.

First Method. If a Sight Draft is recorded in the Cash Book, it may be entered (*a*) when the draft is drawn or (*b*) when it is reported paid. The time of record will depend entirely upon the disposition of the draft after it has been drawn. If it is entered on a deposit slip similar to a check received (that is, discounted as suggested in (*a*)), then the drawee will immediately receive credit at the bank for the proceeds of the draft and the consequent entry would be—Cash, Dr. / Drawee, Cr. for the face of the draft. An entry for collection and exchange would be made when the exchange is charged by the bank. No further entry would be necessary when the draft is paid. If the draft is *not* treated as an incoming check and therefore *not* entered among the checks when making the daily deposit but is left at the bank for collection (as suggested in (*b*)) then no record —except a lead pencil memo. in the drawee's account—will be made until the draft has been reported paid. At that time cash would be debited, collection and exchange debited, and the Drawee credited.

Second Method. When a Sight Draft drawn on a creditor is recorded in the Bill Book, the record will be exactly the same as that made for a time draft, which will result in the following entry, made in the Bill Book when the draft is drawn: Bills Receivable, Dr. / Drawee, Cr. The necessary entry when the draft is paid will be made in the Cash Book and if the draft has been left at the bank for collection will be equivalent to the following journal entry: Cash, Dr., Collection & Exchange Dr., / Bills Receivable, Cr.

Although Sight Drafts drawn on customers are frequently treated as cash, the majority of accountants favor the plan of treating them as Bills Receivable. The short limit of time which is supposed to elapse between the date on which Sight Drafts are issued and that on which they are paid is the only argument in favor of treating them as cash, but even this contention is very weak since a sight draft drawn in Halifax on Vancouver would not be reported paid for at least three weeks, while a fifteen-day time-draft drawn in Hamilton on Toronto, would in all probability be paid in a shorter limit of time.

§ **204. Time Drafts Drawn by Us.** Time Drafts drawn by us are recorded in our books as "*Bills Receivable*" and are entered in a special book called a "*Bills Receivable Book,*" which is usually used as a book of original entry. The customer upon whom the draft is drawn should be credited with the amount of his indebtedness which the drafts will cancel (usually the face value of the draft). The total of the drafts entered in the

Bills Receivable Book is posted to the debit of Bills Receivable account in the General Ledger.

Equivalent Journal entry to record suggested above would be as follows:—

¶ 1. Time Draft without interest drawn on customer,

Bills Receivable, Dr.
Drawee, Cr.

§ 205. **Time Drafts Left with Bank for Collection.** When a Time Draft has been drawn on a customer and he has been credited for the amount, it becomes our duty to forward the draft to him for his acceptance. This is done through the medium of the bank. The bank in which we keep our account will present this draft to our customer for his acceptance and if accepted will at our request hold the acceptance until it is due, when they will present it to our customer or to his bank for payment. The charge made by the bank for this service is one-eighth of one per cent. of the face of the draft, if it be drawn on a customer doing business in a town or city in which our bank has a branch. If our bank is not represented in that town or city by a branch, the work of presenting the draft for acceptance is done by a "correspondent" of our bank in which case the charges made by our bank to us would be one-quarter of one per cent. When the draft is paid, our bank will give us credit for the amount of the acceptance less their charges for their services.

The first report we would get with reference to the collection of the acceptance would be the record in our Bank Pass Book showing the amount of the acceptance less collection, placed to our credit. If our drafts left for collection were numerous, the bank would give us a statement showing the individual amounts collected, from whom collected, and the charges for collection. Upon receiving this report from the bank either in statement form or in our Bank Pass Book, it would be necessary for us to make an entry in our Cash Book for cash received, crediting Bills Receivable account for the *face value of the bill*, and debiting collection and exchange for the difference between the cash realised and the face value of the acceptance. This entry in our Cash Book would be equivalent to the following Journal entry:—

¶ 1. Time Draft left at bank for collection (no entry necessary).

¶ 2. Report by bank (by record in Pass Book) that time acceptance without interest has been paid,

Cash, Dr.
Collection and Exchange, Dr.
Bills Receivable, Cr.

INTEREST AND DISCOUNT.

§ 206. **Interest** is the term used to represent the income derived from money loaned or the cost or expense of money borrowed, *e.g.:* A borrows \$100 from B for one year agreeing to pay interest at 6% per annum. When the debt falls due, A would pay B \$106. \$100 of the payment is called principal and the balance, \$6, is interest.

§ 207. **Discount.** If the interest charged is deducted when the money is borrowed, the interest is usually called Discount: *e.g.*, A borrows \$100 from B for one year at 6% per annum, agreeing to pay the interest in advance. B will, therefore, deliver to A \$94, retaining the interest or discount, \$6.

As the term "discount" is so frequently used to represent an amount allowed either off the list price of goods bought or sold or for prompt payment of an account, it may be well for the junior student to use the term "discount" for that purpose only, and to record all costs and income derived from the use of money to an interest account, even though the interest may be paid in advance and therefore in the strictest sense be entitled to the term "discount." To illustrate: Suppose A issues a trade catalogue, the prices in which are subject to a discount (trade discount) and sells a bill of goods to B on terms of 2% 10 days. B pays the amount within the ten day limit and earns the 2% discount (cash dis-

count). In another transaction A borrows from the bank as much money as possible on his Promissory Note for $100 which he gives to the bank as security. The bank charges $6 interest (or discount) deducting the amount from the face of the note and delivering $94 to A. In this transaction A is said to have "discounted his note" and while the $6 should be termed "discount" yet it is better to record it as "interest" in order to distinguish this form of discount from trade and cash discount.

For purposes of Bookkeeping, interest may be defined as "The Use of Money." Like all other Nominal accounts it should be debited when it represents a cost and credited when it represents an income.

§ 208. **Time Drafts Discounted.** The real function of a Time Draft in business is to provide a means of realising funds on all sales and of supplying a bank from which money is borrowed with security for loans made by it to the drawer of the draft. While it is true that an acceptance is more valuable to the drawer than a ledger account, should it become necessary to sue a customer, yet the function of the draft is *not* the collection of overdue accounts.

It frequently occurs that a trader owing to the terms of credit given to his customers, is left with a small amount of cash on hand at a time when it is necessary to make extensive purchases on short terms of credit and as a result it is necessary to apply to the bank for a temporary loan. On making such an application, it will be necessary for him to provide the bank with a copy of his last financial statement. The amount of the loan which he applies for is called a *line of credit.* This amount would be the largest sum he would be likely to need at any time during his financial year. The bank officials would carefully examine his statement and if his business was in a sound condition and his liquid surplus satisfactory, the bank would give him the loan or credit asked for, on the condition that proper security could be provided to safeguard the bank from the possibility of loss even under future unfavorable business conditions. Many forms of security are required by banks depending largely on the nature of the borrower's business. A borrower would in all probability be required to give to the bank his promissory notes for amounts borrowed and as a collateral security he would be required to endorse to the bank all drafts drawn by him on his customers from month to month as sales are made or as accounts become due. A line of credit is sometimes granted on promissory notes up to a certain amount and on "Trade Paper" for the balance.

By *Trade Paper* is meant Sight or Time Drafts drawn by the borrower on his customers for sales as they are made or for accounts as they fall due. This Trade Paper, when drawn, would be lodged in the bank for collection, but if the borrowings of the client should exceed the amount of credit granted on his promissory notes, then the balance required would be secured by discounting these Drafts for the additional amount required, getting credit for the proceeds on each draft so discounted. When the Trade Paper falls due and is paid, the amount of this collateral is applied to the reduction of the loan, until by this means in addition to the daily deposits made by the client, the amount borrowed is completely paid.

The authority given the bank by the borrower to apply all his Trade Paper to the reduction of his loan is called a *Letter of Hypothecation.*

If the line of credit required by the borrower is considered large in proportion to his Liquid Surplus, he is frequently required to give to the bank an assignment of his book accounts, or some other form of security, in addition to a general Letter of Hypothecation, but the *Time Drafts drawn on customers become the principal media through which the payment of the loan to the bank is effected.*

As interest is charged by banks on all borrowings, a borrower would use his line of credit as little as possible according to the demands of his business.

As the Time Draft is to a large extent the medium used by business concerns to liquidate such loans, it is owing to the constant use of such Trade Paper that business houses are enabled to realise funds with which to do business, and it is on this account that sales are now usually made "Subject to Draft." In years gone by, the Draft was used prin-

cipally for the collection of a greatly overdue account, and in those days it was considered a sign of financial weakness to have a draft drawn upon a firm. This old-fashioned idea has been happily superseded by saner business methods, and we no longer find drafts returned by reputable business houses with the old-fashioned statement attached, "We do not accept drafts." Unless a firm transacts its business on a strictly cash basis, such a statement in these days would indicate either a decided financial weakness, or an admission of adherence to out-of-date methods which usually lead to financial ruin. Goods are to-day sold "Subject to Draft," and unless arrangements have been made otherwise, it is the rule, not the exception, that drafts be drawn on all accounts on a stated date, or on stated days in each month. Drafts are usually drawn payable, on the due date of an invoice or, when sales are frequent, on a definite date in each month, for the amount due as shown by the previous statement issued. All these arrangements, of course, are subject to the terms on which goods are sold.

Keeping in mind not only the reason why drafts are drawn, but also the reason why they are discounted, let us now turn our attention to the records made in the books of original entry when notes or drafts are discounted.

Suppose Jones draws on Bell for $100. In order to have the draft presented to Bell for acceptance, Jones would place the draft in the bank either for collection or for discount. His decision to leave the draft for collection or for discount will depend entirely upon his present cash balance. If this balance is sufficient to meet his immediate requirements, he would leave the draft for collection, whereas if he were in immediate need of funds and had made arrangements with his bank to secure credit in this manner, he would *discount* the draft. By so doing, he would get credit for the face value less the charges made by the bank for interest and collection. Let us suppose that Jones discounts this draft and gets credit for the proceeds, $99.35. The interest and collection charges are 65c. As his cash balance has been increased to the extent of $99.35, it is necessary for him to make an entry on the Received side of his Cash Book for $99.35. As this amount has been realised by the discounting of a draft which has already been recorded in his books as Bills Receivable, it will be necessary for him to credit Bills Receivable account,—the account which gives or produces cash. Bills Receivable account must always be either debited or credited *for the face value of the draft*, which in this case would be $100. The difference between the face value, $100, and the actual amount of cash realised, would be charged to Interest account or to Discount, if it is thought wise to introduce the word "discount" in this connection. The method of making such a record would depend upon the ruling of the Cash Book, but no matter how it is made, the entry will result in debiting Cash with $99.35, debiting Interest (or Discount) with 65c, and crediting Bills Receivable with the face value, $100.

After the draft has been lodged in the bank, it follows the course of any other similar paper. It is forwarded by the bank to a branch or to a correspondent in the town or city in which Bell conducts his business. It is presented by the bank's messenger to Bell for his acceptance. If it is honored by Bell, the acceptance is usually held by the bank until maturity, when it is presented for payment at the bank at which Bell by his acceptance has made it payable. When paid—*i.e.*, charged to Bell's account in his bank,—it is held by that bank and is returned to Bell at the end of the month with his cancelled checks. Had Bell dishonored this draft upon presentation, or had he dishonored his acceptance at maturity, the draft or acceptance would have been returned to the bank in which it was originally discounted, and would there have been charged back to the account of Jones. In that event it would have been necessary for Jones to have debited Bell for the face of the draft and credited Cash for the same amount. This is the amount which would have been charged against his account by the bank if it had been dishonored at maturity. If the draft had been returned unaccepted, the bank would have allowed a rebate on the interest charged to him, owing to the fact that, since the draft had been returned unpaid, Jones would not have received the benefit or use of the proceeds and consequently the bank would have had no right to have charged him interest for funds not loaned.

§ 209. Qualified Acceptance. In all transactions which result in the drawing of drafts on customers, it is assumed that the drawee is in debt to the drawer. Therefore

when a draft is lodged in the bank for either collection or discount, it is assumed that the drawee will accept the paper. Of course, the drawee is not obliged to accept a draft drawn on him unless he owes the amount and unless the conditions of the draft are in accord with the terms of his purchase.

If an error were made in drawing the draft, it would be the privilege of the drawee to give his "Qualified Acceptance" by accepting the draft "Partially." *e.g.:* If the amount of the draft is incorrect, by agreeing to pay part only of the amount for which the bill is drawn. He may also qualify his acceptance by changing the time of the bill. *e.g.:* If the bill is drawn incorrectly payable in 30 days, he may accept it payable in 60 days. If a qualified acceptance is so written on a draft, notice of such an acceptance is given to the bank in which the draft was lodged and by that bank to the drawer of the draft. This notice is given not only to enable the drawer, if he agree to the altered acceptance, to make the necessary adjustments in his books, but also to hold the drawer and endorsers liable for the bill under the altered condition should it be dishonored at maturity.

§ 210. **Time Drafts Accepted by Us.** Time Drafts accepted by us or Promissory Notes issued by us are recorded in our books as *Bills Payable* and are entered in a special book called a *Bills Payable Book* which is usually used as a book of original entry. When we issue a Note—except one in favor of our bank (Bank Bills Payable)—or accept a Time Draft, we should make a record of the paper in the Bills Payable Book in which a column is provided for debiting the drawer of the draft or the payee of the note for the amount of the indebtedness which the note or draft cancels. The total of the notes or acceptances so entered in the Bills Payable Book must be posted at intervals to the credit of a Bills Payable Account, which should be opened in the General Ledger. As Bills Payable Account represents debts due by us, it is a liability. When these notes or acceptances are paid by us at maturity, the amount paid is entered on the credit side of the Cash Book. As the liability shown by the Bills Payable Account is reduced when our acceptances or notes are paid by us, it is necessary for us to show the reduced liability by debiting Bills Payable Account so that the difference between the debit and credit sides of this account will show the net liability. Bills Payable Account must always be debited or credited for the face value of the note or bill. The equivalent Journal entries to the records suggested above would be as follows:—

¶ 1. Time Draft accepted or Promissory Note issued—Drawer of Draft or Payee of Note, Dr. / Bills Payable, Cr.

¶ 2. Payment of a Note or Acceptance in Cash—Bills Payable, Dr. / Cash, Cr.

FACTS WORTH REMEMBERING IN CONNECTION WITH THE RECORDS MADE FOR DRAFTS AND PROMISSORY NOTES.

§ 211.

1. Bank Drafts when received are recorded as Cash.

2. Demand Drafts are recorded as cash when drawn.

3. Sight Drafts when drawn may be recorded as Cash or Bills Receivable.

4. After a Time Draft has been accepted, it is called an Acceptance.

5. Notes and Acceptances in our favor are recorded as Bills Receivable.

6. Notes issued and our Acceptances are recorded as Bills Payable.

7. The *face value* of a note or bill is always recorded in the Bills Receivable or Bills Payable Account.

8. The Income derived from interest on a Bill Receivable is credited to Interest Account.

9. The cost of the use of money derived from a Bill Payable (discount) is charged (Dr.) to Interest.

10. The balance or difference between the debit and credit sides of Bills Receivable Account is an asset and must agree with the total face value of notes and acceptances in our favor.

11. The balance or difference between the debit and credit sides of Bills Payable Account is a liability and must agree with the face value of our notes or acceptances outstanding.

ALTERNATIVE METHODS OF MAKING ENTRIES.

§ 212. While practical suggestions are given in the foregoing section with reference to the accounting procedure for transactions in which drafts are involved, the student must not forget that the directions given are not arbitrary, but are to a large extent suggestive. There are a great many conditions which enter into the plan or method of recording drafts which are governed by the nature of the business, the trade relation between the firm and its customers, and the financial arrangements made between the bank and its client. On this account, it is impossible to make fixed rules. The best accounting system is that which will lend itself most readily to the conditions which prevail in the particular business *for which and the office in which the records are being made.* Some business houses place all drafts in the bank for collection, while others discount each bill as it is drawn. Some bookkeepers prefer to credit each customer with the draft as it is drawn; others prefer to make a lead pencil memo. only in the customer's account when the draft is drawn and credit him when the draft has been paid. Provided a satisfactory record is made for the bill, the best accounting system is that which accomplishes a satisfactory result with the least possible trouble.

As in the limited work of this nature it is impossible to deal with every condition which may arise, the student should bear in mind that any method of recording drafts and crediting customers which he may meet with in his early experience as a bookkeeper is not necessarily wrong or contrary to good accounting theory, simply because it does not conform in detail with that plan suggested herewith. On the other hand, if the student is confronted in his first experience as a bookkeeper with an established system which does not coincide in its details with that suggested in his course of instruction in a Commercial College, it does not follow that the information given during his college course is incorrect. A course of instruction outlined in a text or presented in a college should embrace *sound principles of accounting* which may be adapted to any line of business, rather than narrow methods pertaining to specific kinds of work. A student trained in the broader way and sufficiently experienced in recording transactions in standard modern books of record will readily familiarize himself with whatever peculiar rulings, forms, or methods may be employed by any individual business concern.

BILL OF LADING.

§ 213. Shipping Bill. When goods are shipped by freight, it is necessary for the shipper to make out a Bill of Lading. If the goods are shipped C.O.D., an *order* Bill of Lading is necessary. See § 226. When shipping on terms in the regular manner, a *straight* Bill of Lading is required. A Bill of Lading is made in triplicate. The first copy is called the Original; the second, the Shipping Order; and the third, the Memorandum. The Original of a Straight Bill of Lading is signed by the shipper and also by the agent of the carrier issuing it. This paper, if goods are sold F.O.B. in your town or city, is forwarded by the shipper to his customer to prove that he has turned the goods over to the transportation company in good order. The Shipping Order is signed by the shipper only. This copy is taken by the agent who collects the freight for the transportation company and is an instruction to the company in regard to the transportation and disposition of the goods. The third copy, or Memorandum, is signed by the shipper and also by the agent and is retained by the shipper as a copy of the Original for reference only.

For use in connection with the Form of Straight Bill of Lading approved by the Board of Railway Commissioners for Canada by Order No. 7562 of 15th July, 1909

CANADIAN PACIFIC RAILWAY COMPANY **3**

THIS MEMORANDUM is an acknowledgment that a bill of lading has been issued and is not the Original Bill of Lading, nor a copy or duplicate, covering the property named herein, and is intended solely for filing or record.

Shipper's No. ....

Agent's No. ....

For use in connection with the Form of Straight Bill of Lading approved by the Board of Railway Commissioners for Canada by Order No. 7562 of 15th July, 1909

CANADIAN PACIFIC RAILWAY COMPANY **2**

THIS SHIPPING ORDER must be legibly filled in, in Ink in Indelible Pencil, or in Carbon, and retained by the Agent.

Shipper's No. ....

Agent's No. ....

Form of Straight Bill of Lading approved by the Board of Railway Commissioners for Canada by Order No. 7562 of 15th July, 1909.

CANADIAN PACIFIC RAILWAY COMPANY **1**

STRAIGHT BILL OF LADING—ORIGINAL—NOT NEGOTIABLE

Shipper's No. ....

Agent's No. ....

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at Student' Address Mar. 1st, *19*..........

from Adams & Gordon the goods described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said goods over all or any portion of said route to destination, and as to each party at any time interested in all or any of said goods, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The Rate of Freight from ....

to .... *is in Cents per 100 Lbs.*

IF ......Times 1st	IF......Class	IF......Class	IF......Class	IF......Class	IF......Class	IF......Class	IF......Class	IF......Class	IF......Class	IF......Class	IF Special per ....

(Mail Address—Not for purposes of delivery.)

Consigned to W. K. Wright,

Destination Vancouver, Province or State of B. C. County of ....

Route All Rail Car Initial .... Car No. ....

No. Packages	DESCRIPTION OF ARTICLES AND SPECIAL MARKS	WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN
4	Cases Stationery	522		
2	" Blank Paper	267		

If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $.......... to apply in prepayment of the charges on the property described hereon.

(The signature here acknowledges only the amount prepaid.)

Charges advanced:

$..........

Adams & Gordon Shipper. .... Agent.

Per .... Per ....

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

Illustration No. 142 Straight Bill of Lading

§ 214. Sundry Small Accounts Receivable. In conducting a business, it is frequently necessary to keep a record in the Ledger for many small sales made to customers who do not purchase very extensively. Some of these accounts are not very active and may seem of very little importance, but each is worth proper care and attention as many first-class accounts are at first very small. To save space in the Ledger, one account termed "Sundry Small Accounts Receivable" may be opened in the ledger to represent all these inactive accounts. When any account shows signs of becoming unusually active, it can be withdrawn from the Sundry Small Account and given a regular space in the Ledger. In keeping such a sundry account, it is a good plan to use such a form of ledger sheet as will permit of entering the name of the customer opposite the amount debited. The space opposite this name and amount on the credit side of the account should not be used until payment of this item has been made, when the amount paid can be inserted on the credit side opposite the original debit. This plan facilitates the rendering of statements and checking of the balance of the Sundry Small Accounts Receivable Account. Sundry Small Accounts Payable may be treated in the same manner.

FORM 226

THE COMMERCIAL TEXT BOOK CO. TORONTO

ACCOUNT Sundry Small Accts Receivable RATING ______ ACCOUNT No ______

LIMIT ______ SHEET No ______

DATE		MEMO.	FOL	√	DEBITS	√	BALANCE	DATE		MEMO.	FOL	√	CREDITS
19– Jan	2	Jones A B	129		2 20			19– Feb	5		c12		2 20
"	4	Beemer G	180		1 26			Jan	10		c6		1 26
"	12	Denton & Co	320		5 20								
"	20	Hendry Geo	362		8 23			Jan	25		c8		8 23
"	27	Mason R	412		4 20		11 60	Feb	6		c16		4 20
Feb	4	Miller G	520		3 27			Feb	10		c22		3 27
"	8	Oram F	593		10 20								
"	15	Dent & Co	740		5 95								
"	22	Elliott A	792		2 16		23 51						

Illustration No. 143 **Sundry Accounts Receivable Account**

Section 16

PARTNERSHIP.

TRANSACTIONS OF ADAMS & GORDON FOR MONTH OF OCTOBER.

The books to be used in the month of October are as follows:—

Principal Books:—

1. Sales Record (L. L. Manifold Billing).
2. Journals:—(*a*) Purchase Book (Analyzed Form); (*b*) Cash Journal (Analyzed Form); (*c*) Bills Receivable Book; (*d*) Bills Payable Book; (*e*) General Journal.
3. Ledger:—(*a*) General, (*b*) Sales, (*c*) Purchase } Balancing as one book.

Auxiliary Books:—

1. Petty Cash Sheets.
2. Bank Pass Book—illustrated in text.
3. Perpetual Inventory Sheets.

Perpetual Inventory Sheets. These Sheets will be used so that the student may be able to calculate the inventory at the end of the month. On these sheets must first be entered the inventory as given below. Use one sheet for each line of stock. Goods purchased for resale only must be recorded on these sheets. All sales of merchandise must be recorded in the proper columns, and the balances carried out at the end of the financial period, or at any other time desired.

Condensed Sales Sheets. If in the opinion of the teacher the student has had sufficient practice in "billing", a package of loose leaf sales sheets with invoices extended should be procured. These may be used in the months of Oct., Nov. and Dec.

INVENTORY SEPT. 30, 19 .

GEORGE ADAMS.

Article.	Amount.	Price.
Arithmetic, New Method	320	$1.92
Cash Book	51	3.00
Erasers, P. & P. #414	78 gro.	4.00
Erasers, Type. #428	87½ gro.	9.00
Ink, Commercial	16 gro.	12.00
Inkstands, #712	20 doz.	24.00
Journals, #412	69	3.00
Letter Book	9	4.00
L. L. Binder #415	126	8.00
L. L. Index	87	2.00
L. L. Sheets #415	158 M.	6.00
Paper Fasteners, S1	110 M.	1.60
Paper Fasteners, S2	125 M.	1.60
Paste, Stafford's W. W.	1,096½ doz.	2.00
Pencils #21 B.	276 gro.	8.00
Pencils #21 HB.	242 gro.	8.00

Article.	Amount.	Price.
Penholders, Fingerfit	145 gro.	$10.00
Penholders, Velvet	146 gro.	8.00
Pens, No. 1	595 gro.	1.10
No. 2	526 gro.	1.10
No. 3	583 gro.	1.10
No. 10	622 gro.	1.10
Rubber Bands #85	55 lbs.	3.00
Rulers, 12" #136	6 gro.	16.00
Rulers, 15" #137	9 gro.	24.00
Spellers, Canadian Business	330	.64

§ 215. **The Object of Forming a Partnership.** During the past nine months the business of George Adams has been expanding very rapidly, so rapidly indeed that Mr. Adams has found it difficult to provide sufficient capital to properly finance the business and to take care of future development. He has decided to admit as a partner his best salesman, Mr. Henry Gordon, upon the terms and conditions outlined in the Articles of Co-partnership.

§ 216. **Liability of Partners.** Each partner of a firm is liable for the debts of the firm to the extent of his complete resources, whether those resources be invested in the business or otherwise.

> The articles of Partnership given below are not complete. Only those clauses are given with which it will be necessary for the student to become familiar in order to understand the entries and adjustments to be made in the accounts of the partners. Read the Articles carefully.

§ 217. **Salaries of Partners** should be charged to Profit & Loss account, while *Drawings* should be charged to their respective drawings or current account. If the capitals are unequal or the drawings unequal either in amount or period for which amounts are withdrawn, *interest* should be calculated thereon. Interest on capital should be calculated on the amount at the commencement of the year and allowances made for additions thereto or withdrawals therefrom during the period, interest being worked from the exact dates.

All interest adjustments should be made in a second division of the Profit & Loss account after the Net Profit from trading has been shown. The effect on the partners' accounts of omitting to charge interest on capital is as follows:—

¶ 1. If the capitals are equal and the profits shared unequally, the partner entitled to the smaller share of profit will lose.

¶ 2. If the partners share profits equally, but the capitals are not equal, the partner with the larger capital will lose.

¶ 3. If the capitals are unequal and the profits are shared unequally, the result to the partners will depend on the proportion in which the profits are shared and the respective amounts of capital held by them.

ARTICLES OF PARTNERSHIP.

§ 218. **This Indenture,** Made this thirtieth day of September, A.D. 19 , between George Adams of the City of , wholesale merchant, party of the first part, and Henry Gordon of the City of , salesman, party of the second part.

Whereas, The said George Adams and Henry Gordon have agreed to become partners in the trade or business of wholesale stationers as hereinafter mentioned, for the term and subject to the conditions hereinafter contained.

Now, therefore, This indenture witnesseth that in pursuance of the said agreement, each of the partners doth hereby covenant with the other as follows:—

¶ 1. That the said George Adams and Henry Gordon shall become and remain partners in the trade or business of wholesale stationery merchants for the term of five years from the date hereof.

¶ 2. That the business of the said partners shall be conducted under the firm name of Adams and Gordon at ——— or at any other place or places decided upon by the said partners.

¶ 3 That the capital of the partnership shall be $45,000, and shall be contributed by the said partners in the proportion of two-thirds and one-third; that is to say, George Adams shall contribute two-thirds and Henry Gordon shall contribute one-third.

¶ 4. That the proportion of the capital contributed by George Adams shall be contributed in the following manner:—

The said George Adams shall by bill of sale transfer to the firm of Adams & Gordon all the stock-in-trade, goodwill and other assets of the wholesale stationery business conducted by him at ——— under the style and firm of George Adams, according to the schedule herewith attached and marked schedule "A" which forms part of this agreement.

¶ 5. The said Henry Gordon shall contribute his share of the capital in the following manner:—

The said Henry Gordon shall and will by deed, sell, and transfer to the said firm of Adams & Gordon all and singular that certain parcel or tract of land lying and situate on the west side of Canada Street in the City of ———, and being composed of Lot No. 27 on the west side of Canada Street as shown on Plan No. 421-E filed in the Registry Office for the Registry Division of ——— on which is situated a three-storey brick building commonly known as No. 427 Canada Street, for and at a valuation of $16,000, subject to a first mortgage on the said building of $6,000, which is to be assumed by the said Adams & Gordon with interest at 6% per annum on the unpaid principal from the date of this agreement, and the said Henry Gordon further covenants and agrees to invest in the said firm of Adams & Gordon, cash, $5,000.

¶ 6. That the profits or losses shall be divided between the partners according to investment as shown by the capital accounts, namely, two-thirds and one-third.

¶ 7. That the capital accounts of the partners shall remain the same from year to year and that any amount paid to a partner as salary shall be kept in his salary account.

¶ 8. That each partner shall be privileged to either withdraw or re-invest his share of the profits as shown on the date of any yearly accounting period, but any amount so re-invested shall be kept in a "current" account from which withdrawals may be made at any time and any amount so invested shall not alter the division of the net profits as stipulated in clause 6.

¶ 9. That each partner shall be entitled to receive interest at the rate of 6% per annum payable yearly from the commencement of the said partnership on the date of the closing of the financial year, on the amount of capital invested by him, and shall also be entitled to interest at the same rate on the balance of his current account. All adjustments of such interest either on original capital or undrawn profits shall be made in the partner's current account.

¶ 10. That neither partner shall at any time be entitled, except by mutual consent, to withdraw in addition to his salary as hereinafter provided, a sum greater than the amount to his credit in his current account and if such consent be granted, the party so withdrawing such amount shall be charged interest on the excess at the rate of 7% per annum, and any profit he may be entitled to at the close of the next succeeding financial year must first be applied to the repayment of any excess amount so withdrawn.

¶ 11. That neither partner shall during the continuance of this partnership be employed either directly or indirectly in any business other than the business of the partnership, except with the previous consent of the other in writing.

¶ 12. That the duty of George Adams shall be that of manager. That he shall employ his time diligently in the business of the partnership, and shall carry on same to the greatest advantage of the firm, for which services he shall be paid a salary of $2,400 per year, payable monthly in sums of $200 per month.

¶ 13. That the duties of Henry Gordon shall be those of sales manager. That he shall employ his time diligently in the business of the partnership and shall carry on the same to the greatest advantage of the firm, for which services he shall be paid a salary of $1,800 per annum, payable monthly in sums of $150 per month.

¶ 14. That the salaries paid to the partners according to clauses 12 and 13 shall be charged to Salaries Account and shall be paid out of the gross profits of the business before any division of the net profits shall have been made.

¶ 15. That the partners shall keep, or cause to be kept, proper books of double entry accounts and proper entry shall be made therein of all monies received and paid, and of all sales, purchases, contracts, engagements, transactions and property of the partnership, and of all other matters of which accounts or records ought to be kept or made according to the usual or regular course of the business; and all deeds, securities, bills and papers including the said books of accounts shall be kept at the office or place of business of the said partners and that either of the partners shall have free access to such papers, books or documents to examine or take copies of the same.

¶ 16. That on the 31st day of December in the present year, and on such other day in each succeeding year as may be fixed by the partners hereto as the annual date on which the accounts should be closed, a statement of all assets and liabilities, profits and losses shall be made and the books, including the financial statement, shall be audited by a chartered accountant, and signed by each of the partners and that such accounts shall be binding on the partners, but can be re-opened in case of manifest error within a period of three months.

¶ 17. That neither of the partners shall, without the consent in writing of the other, enter into any bond, or become bail or surety, or security for any person or persons or corporation.

¶ 18. That all contracts and engagements entered into by the partners on account of the partnership, and that all checks, drafts, promissory notes, and other securities, receipts and other evidence relating thereto, shall be made, given and taken respectively in the name of the firm.

¶ 19. In the event of the death of either of the partners, his executors or administrators shall be entitled to ——, etc.

SCHEDULE A.

Statement of Assets & Liabilities of George Adams

Invested in the Firm of Adams & Gordon, Sept. 30, 19 .

ASSETS.

Quick or Current Assets:-			
Stock in Trade		$17,526.94	
Accounts Receivable	$22,018.80		
Less Bad Debts Reserve	36.40		
		21,982.40	
Continued on page 162			$39,509.34

Brought Forward

Fixed Assets:-			
1. Tangible:-			
(a) Furniture & Fix.	$513.50		
Less " Deprec. Reserve	51.35		
		$462.15	
2. Intangible:-			
Goodwill		5,000.00	
			5,462.15
Deferred Charges			452.00
			$45,423.49

LIABILITIES & CAPITAL.

Floating or Current Liabilities:-			
Bank Overdraft	$ 40.52		
Accounts Payable to Trade	9,091.60		
Accounts Payable to Geo. Adams	6,126.37		
		$15,258.49	
Accrued Liabilities		165.00	
			$15,423.49
Capital Contributed to Partnership 2/3			30,000.00
			$45,423.49

SCHEDULE B.

Statement of Assets & Liabilities of
Henry Gordon

(Invested in the Firm of Adams & Gordon, Sept. 30, 19).

ASSETS.

Quick or Current Assets:-		
Cash		$ 5,000.00
Fixed Assets:-		
Land	$ 4,000.00	
Buildings	12,000.00	
		16,000.00
		$21,000.00

Continued on page 163

LIABILITIES & CAPITAL.

Fixed Liability:-	
Mortgage Payable	$ 6,000.00
Capital Contributed to Partnership 1/3	15,000.00
	$21,000.00

It has been decided by Adams & Gordon to keep a Perpetual Inventory of all goods on hand. A list of all goods in stock may be taken from the inventory on page 158. Make a Perpetual Inventory Sheet for each line of goods listed on the stock sheets according to illustration No. 149.

In conducting the business of Adams & Gordon, the partners have decided upon certain business policies which will affect your records and which may be outlined as follows:

¶ 1. Terms of Sales shall be 60 days, 2% 30 days.

¶ 2. All goods shall be sold subject to draft at 60 days on date of invoice or sight draft on due date of invoice.

¶ 3. Sight Drafts shall be drawn on the 10th day of each month on all overdue open accounts. Sight drafts will be deposited as checks (discounted). Method of treating sight drafts No. 1a, see page 150, § 203.

¶ 4. A Perpetual or Book Inventory of all goods on hand shall be kept.

¶ 5. In addition to the books already kept, Bill Books shall be kept as books of original entry.

¶ 6. A line of credit with the College Bank to the extent of $15,000 shall be applied for, to be secured by promissory notes of the partners to the extent of $8,000, supported by trade paper for collection as collateral security and discounted trade paper for the balance.

¶ 7. Cases in which goods are shipped, shall be charged to customers at cost.

¶ 8. Time drafts drawn on customers will be lodged in the bank for collection § 204 and 205.

By examining Schedule A on page 161, you will note that Mr. Adams has transferred his assets to the new firm at a value of $30,000. The Present Capital or excess of assets over liabilities, as they now stand on the books, is $25,000 only. The difference, $5,000, is the price charged by Mr. Adams for the Goodwill of the business.

§ 219. Goodwill is the established popularity of a business which will maintain its custom or trade. It includes every practical advantage that has been acquired by an established firm in carrying on a business under a particular name or style. In a mercantile sense it may be considered the advantage which accrues to an established firm by reason of the probability that the old customers will resort to the old place. Goodwill is a distinct value and may be purchased or sold. It is a Fixed Asset. It is called an Intangible Fixed Asset, in contradistinction to Tangible Assets, such as Real Estate, Furniture and Fixtures, etc. It will be necessary to bring the Capital Account of George Adams up to the sum of $30,000 by creating an account for Goodwill which represents the difference between $30,000 and the present book value of the assets. The Journal entry should appear as follows:—

Goodwill, Dr., $5,000 / Geo. Adams Capital, Cr., $5,000.

Make the above Journal entry, giving proper explanations.

Make an entry in the Journal which will record all the investments of Henry Gordon, the new partner, except the cash investment which will be recorded in the Cash Book. Keep a separate account for Land and one for Buildings. This is done so that proper records can be kept for depreciation on buildings.

Debit the Buildings Account for the actual value and show the existing assumed liability by opening an account for Mortgage Payable.

Cash Journal—Receipts

Date		Deposits	Accounts Dr. Cash Dr.	Accounts Dr. Sales Disc. Dr.	Accounts Dr. Exchange Dr.	Accounts Dr. Interest Dr.	Explanation for Dr. or Cr. Account	Explanation for Dr. or Cr. Memo.	Accounts Cr. Acct's Rec. Cr.	Accounts Cr. Mdse. Sales Cr.	Accounts Cr. Other Accts. Cr.
19— Oct	1		5000 —				Henry Gordon (capital)	Invest			5000 —
"	1		924 —				Duncan Robt	a/c	924 —		
"	1		1000 —				Graham A.C.	a/c	1000 —		
"	1		2000 —				Holt John	a/c	2000 —		
"	1	12613 —	400 — 12,613 —				King A.R. & Son	a/c	400 —		
"	7		4265 16	11 42			Bell Henry	a/c	4271 25		
							Coll & Exch	on above			5 33
"	24		312 62	6 38			Andrews C.R.	a/c	319 —		
"	24	953 79	641 17	13 08			Bell Henry	a/c	654 25		
"	26	1438 20	1438 20		1 80		Bills Rec.	Mann			1440 —
"	26	764 04	764 04		96		Bills Rec.	Duncan			765 —
"	31	379 52 31,866 42	379 52 29,855 84	95 84	48 4 73		Bills Rec.	Holt	20,990 55	184 50	380 — 8,781 36
			29855 84	95 84	4 73				20990 55	184 50	8781 36
		31866 42									

Illustration No. 146

Cash Journal—Payments

DATE.		No.	ACCOUNTS CR. CASH CR.	ACCOUNTS CR. PUR. DISC. CR.	ACCOUNTS CR. EXCHANGE CR.	EXPLANATION FOR DR. OR CR. ACCOUNTS	EXPLANATION FOR DR. OR CR. MEMO.	ACCOUNTS DR. ACCTS. PAY. DR.	ACCOUNTS DR. EXCHANGE DR.	ACCOUNTS DR. OTHER ACCTS. DR.	CHECKS
19—						Brought Forward	Bank Bal				3379 52
Oct	1	102	6126 37			Geo Adams	Current a/c			6126 37	6126 37
	1	103	150 —			Rent				150 —	150 —
	1	104	30 —			Telephone				30 —	30 —
	2		9 51			Coll & Exch	D Slip		9 51		9 51
"	10	106	692 80	7 20		Stafford Ink Co.	a/c	700 —			692 80
	12		5 42			Coll & Exch	D Slip		5 42		5 42
	12		4884 10			Patterson & Co.	S Draft	4878 —			4884 10
						Coll & Exch	On above		6 10		
"	14		49 —			Freight In				49 —	49 —
"	31	125	62 —			Office Salaries				62 —	62 —
	31	126	46 — 21089 28	93 86		Warehouse "		13770 —	41 29	46 — 7371 85	46 — 24467 80
			21089 28	93 86				13770 —	41 29	7371 85	B 7397 62
											31866 42
						Summary:—					
						Total Receipts			29855 84		
						" Payments		21089 28			
						Add. Cr. Bal on Sept 30		90 52	21179 80		
						True Cash Bal Oct 31			8676 04		

Illustration No. 147

SPECIAL FORM OF CASH BOOK (Cash Journal).

§ 220. In your previous work you have used a simple form of Cash Book. In the succeeding exercises the introduction of additional books of original entry will necessitate the use of a more complex Cash Book. It must be remembered that all modern books of original entry are really Journals, and although the name Cash Book has been applied to the book in which we make records of all cash received and paid, it is in reality a Cash Journal. A Journal is a book in which the debits and credits are conveniently arranged for posting, and no book can conform more readily with such a definition than the Cash Book. In the simplest form of Cash Book which you have been using, the total of the received side was posted to the debit side of the Cash Account, and the items were posted to the credit side of the individual accounts. For purposes of bookkeeping, the only difference existing between this form of Cash Book and the General Journal is in the facility afforded by the Cash Book for posting all the cash received at one posting instead of making as many postings to Cash Account as there are entries, the procedure which would be necessary if the General Journal were used for recording Cash Received.

In introducing a new form of Cash Book or Cash Journal, the same principle is involved in making entries therein as was involved in the simpler forms. In the simplest form of Cash Book, when cash was received and recorded, cash was debited and some person, firm or account was credited. This is true also in the new form of Cash Book, the only difference being that more complex transactions now necessitate the debiting and crediting of a greater number of accounts in each transaction. On this account, columns are ruled so that in every transaction in which cash is a factor, the various accounts which are affected, either on the debit or credit side, may be debited or credited through the Cash Book.

To illustrate: Suppose John Doe owes you $100 on an invoice of goods sold to him ten days ago, subject to 2% discount. By paying this bill to-day he earns $2.00 in discount, thus settling his account by issuing a check for $98.25. The 25c is for exchange on the check. In a Cash Book which is ruled according to illustration No. 146, you would record the receipt of this $98.25 in the following manner: In the Cash Dr. column, you would enter $98.25. In the Sales Discount Dr. column, you would enter the discount allowed, $2.00. In order to balance John Doe's account, you would credit him for $100. This would be accomplished by writing his name in the Explanation Section and entering the $100 in the Accounts Receivable Credit column. But you have received 25c for exchange, so that it becomes necessary for you to credit exchange with this amount. As there is not a special column in which to do this, you would write "Exchange" under John Doe in the Explanation Column and enter the amount, 25c, in the General Ledger section in the column "Other Accounts." Rule a Cash Book in your exercise book and make the above entry. Now examine your Cash Book and you will note that the double entry balance principle is carried out by the following records:—

Debits—Cash $98.25, plus Sales Discount $2.00 = $100.25.

Credits—John Doe, $100; Exchange, 25c = $100.25.

This procedure for recording entries in your Cash Book can be followed in every transaction in which Cash is a feature. After the entry has been made, it is a simple matter to analyse it in order to prove that various accounts, by reason of the entry made, have been debited and credited equally. Remember that the Deposits and Checks columns are memo. columns only and do not affect your Cash Book in any way.

Make an entry in the Cash Book for the Cash invested by Henry Gordon.

Carry the bank balance into the proper column of the new Cash Book.

Adams & Gordon have moved to their new premises at 427 Canada Street.

Oct. 1. *Receipts.* Robt. Duncan, $924.00; A. C. Graham, $1,000; John Holt, $2,000; A. R. King & Son, $400.00.

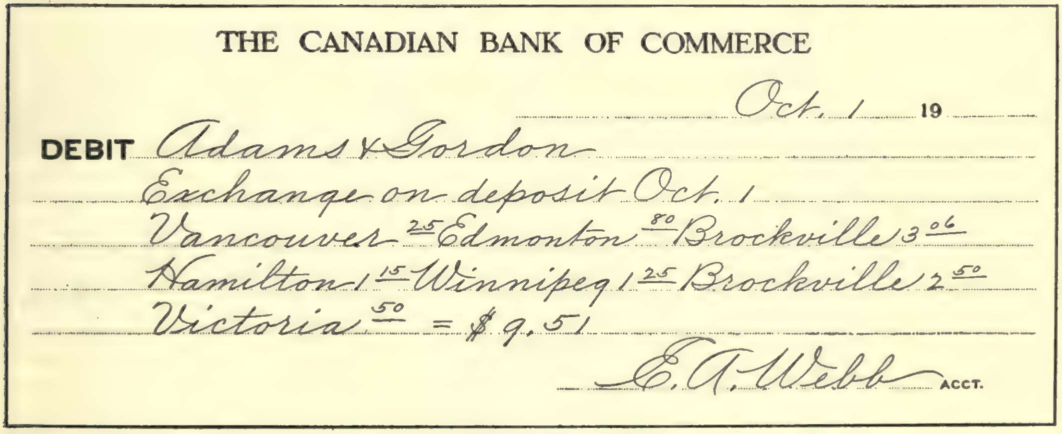
Oct. 1. *Payments.* Geo. Adams, amount due per current account, $6,126.37; Rent to date of removal, Sept. 30, $150; Telephone Bill, July 1 to Dec. 30, $30.00.

Oct. 1. Certified Invoices:—Oct. 1, 19 . Consumers Box Co., your address. Terms 30 days, 2% 10 days. 20 Cases No. 1 @ 75c—$15.00; 20 Cases No. 2 @ $1.00—$20.00; 20 Cases No. 3 @ $1.25—$25.00; 20 Cases No. 4 @ $1.50—$30.00. Total—$90.00.

§ 221. Another Method of Paying Exchange. Exchange on checks on out of town banks has been paid by you out of Petty Cash when making a deposit. Many firms, instead of following this plan of paying exchange, deduct the exchange when making a deposit. This is a poor plan, since the deposits as entered in the Bank Pass Book do not then correspond with the total Cash Received as shown by the Cash Book. It is desirable to have these two figures equal.

The weakness of the method which you have previously followed of paying exchange out of Petty Cash is that it does not afford a voucher for exchange, unless a slip for the amount is signed by the Receiving Teller as each deposit is made.

The ideal plan and the one which is favored by many banks, bookkeepers and especially by auditors, may be outlined as follows: All cash received is deposited. The exchange is not paid at the time a deposit is made, but the client is given credit for the total deposit. On the following day the bank mails to the client a "Debit Slip," see illustration No. 148, containing a list of all checks on which exchange has been charged, indicating the amount charged on each and showing the total. This Debit Slip forms a voucher for an entry on the Payment side of the Cash Book. This method keeps the Receipts and Payments in the Cash Book in harmony with the bank credits and debits as shown in the Bank Pass Book and also provides the auditor with the voucher for exchange, which with some large concerns is very important as exchange charges frequently amount to hundreds of dollars per day.



THE CANADIAN BANK OF COMMERCE

Oct. 1 19

DEBIT Adams & Gordon

Exchange on deposit Oct. 1

Vancouver .25 Edmonton .80 Brockville 3.06

Hamilton 1.15 Winnipeg 1.25 Brockville 2.50

Victoria .50 = $9.51

E. A. Webb ACCT.

Illustration No. 148 **Debit Slip**

NOTE.—The student will notice that the checks are indicated on the Debit Slip by the name of the town or city on which they are drawn. If the client so insists, the bank is willing to endeavor to enter on the Debit Slip the names of the makers of the checks also. It is impossible, however, to guarantee to do so, owing to the indecipherable signatures frequently appearing on checks.

Oct. 1. Deposit all cash on hand, including cash on hand from the previous month.

NOTE.—Arrangements have been made with the bank to give Adams & Gordon credit for the face value of all checks deposited and to issue a Debit Slip the following day listing the checks on which exchange is charged, showing the charge on each check.

Oct. 2. A Debit Slip has been received from the College Bank showing exchange, $9.51, charged on the following checks: Vancouver, 25c; Edmonton, 80c; Brockville, $3.06; Hamilton, $1.15; Winnipeg, $1.25; Brockville, $2.50; Victoria, 50c.

Make an entry on the payment side of cash book entering the amount in the Cash Cr. column, the Exchange Dr. column and in the Checks column. Check each amount of exchange charged by the bank.

Filled Orders:—

Oct. 1, 19 . No. 120. W. A. Murray, Ltd., Regina, Sask., via C.P.R., all rail. Terms 60 days, 2% 30 days, subject to draft. 100 Arithmetic, New Method; 10 Cash Book, #412, 500 pp.; Casing, 75c. Total—$285.75.

Oct. 2, 19 . C. R. Andrews, 559 Bank St., Ottawa, Ont., via C.N.R. Terms 60 days, 2% 30 days, subject to draft. 20 gro. Erasers, P. & P., #414; 10½ gro. Erasers, Type., #420; 5 gro. Ink Comm'l, 2 oz.; Casing, $1.00.

Oct. 2, 19 . Henry Bell, 121-23rd St., Calgary, Alta., via C.P.R., boat and rail. Terms 60 days, 2% 30 days, subject to draft. 10 doz. Inkstands, #712; 20 Journals, #412, 500 pp.; 20M. L.L. Sheets, #415; Casing, $1.25.

Oct. 2, 19 . Davis & Bell, Halifax, N.S., via C.P.R. Terms Net 60 days, 2% 30 days, subject to draft. 20 L.L. Binders, #415; 20 L.L. Index, 28's, Canvas Tabs; 30M. L.L. Sheets, #415; Casing, $1.50.

Oct. 2, 19 . A. R. Dow, Brandon, Man., via C.P.R., boat and rail. Terms Net 60 days, 2% 30 days, subject to draft. 50M. Paper Fasteners S1; 40M. Paper Fasteners S2; 20 doz. Paste, Stafford's W.W.; 50 gro. Pencils, #21 HB.; Casing, $3.00.

Oct. 2, 19 . Robt. Duncan, Hamilton, Ont., via Can. Exp. Collect. Terms Net 60 days, 2% 30 days, subject to draft. 20 gro. Pencils #21 B.

Oct. 2, 19 . A. C. Graham, Main St., Winnipeg, Man., via Dom. Express Collect. Terms Net 60 days, 2% 30 days, subject to draft. 30 gro. Penholders, "Fingerfit"; 10 gro. Penholders, "Velvet"; 50 gro. Pens, Sprott's No. 1.

> Make the proper record on your Perpetual Inventory Sheets. See illustration No. 149.
>
> Check each invoice as it is recorded on the Perpetual Inventory Sheet, as follows: "I."

ARTICLE Arithmetic, New Method % DUTY ____ DUTY COST ____ FREIGHT COST ____
NET COST 1.92 TOTAL COST ____ NO. 1

THE C. T. B. CO. LOOSE LEAF STOCK SHEET FORM 14 The Commercial Text Book Co., Sole Makers, Toronto, Canada

DATE			✓	BOUGHT	SOLD	ON HAND	DATE			✓	BOUGHT	SOLD	ON HAND
Sept	30	Invt				320							
Oct	1	Murray			100								
	12	Moore			50								
	12	C Sale			10								
	12	C T B Co		200									
	14	Peoples S			150	210							
Nov	1	Long			50								
	1	Brown			100								
	1	Andrews			50								
Oct	27	C T B Co		500									
Nov	9	Russell			50								
	21	Graham			100								
	21	King			100	260							
Dec	1	C Sale			20								
	20	Dow			50								
	20	C T B Co		200		390							

Illustration No. 149 **Perpetual Inventory Sheet**

Certified Invoices:—

Oct. 5, 19 . Stafford Ink Co., your address, via Delivery. Terms Net 30 days, 2% 10 days, subject to Draft. 30 gro. Ink, Comm'l, 2 oz. @ $20.00 less 20 & 25%, $360.00.

Oct. 1, 19 . Dominion Pencil Co., 29 St. Urbain St., Montreal, Que., via C.P.R. Terms Net 30 days, 2% 10 days, subject to Draft. 25 doz. Inkstands, #712, @ $50.00 less 40 & 20%—$600.00; 50 gro. Penholders, "Velvet" @ $8.00—$400.00. Total—$1,000.00. Pay freight, $9.82, out of Petty Cash.

Oct. 5, 19 . Canadian Importing Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 200M. Paper Fasteners S1, @ $3.00 less 20 & 33 1/3%—$320.00; 300M. Paper Fasteners, S2, @ $3.00 less 20% & 33 1/3%—$480.00. Total—$800.00.

Oct. 2, 19 . Lufkin Rule Co., Hamilton, Ont., via G.T.R. Terms Net 30 days, 2% 10 days, subject to draft. 25 gro. Rulers 15", #137, @ $24.00—$600.00; 35 gro. Rulers, 12", #136 @ $16.00—$560.00. Total—$1,160.00.

Oct. 5. Pay Freight, $1.45, out of Petty Cash.

Oct. 6. Petty Cash Payments:—Charwoman, $1.25; Carfare for Delivery Boy, $1.00; Telegram, 75c; Twine for Warehouse, $3.20.

Have your work checked and post all items affecting Personal Accounts.

Oct. 6. Insurance on Building. Mr. Adams has effected insurance as follows: Stock, $4,000, for 1 year $48.00, Policy No. 92631, dated October 1; Building, $8,000, 3 years $48.00, Policy No. 92632, dated October 1, for which an account from Irish & Johnson has been received. Amount of Bill, $96.00. Terms 30 days.

§ 222. **Insurance or Assurance** is a contract whereby one person, called the "Insurer" or "Assurer," undertakes to indemnify another person, called the "Insured" or "Assured," against a loss which may arise, or to pay a sum of money to him on the happening of a specified event. There are three principal subdivisions, namely, Indemnity, Life and Marine. Indemnity has particular reference to insurance such as boiler, burglary, fire, guarantee accident, plate glass, working men's compensation, etc. Life Insurance is the insurance on the life of an individual, while Marine Insurance is insurance on ships, their cargoes, or their earnings. The contract issued by the insurer is called a "*Policy.*" The consideration or amount paid for this contract is called the "*Premium.*" In case of marine insurance the name "*Underwriter*" is usually used for the insurer or assurer.

§ 223. **Fire Insurance.** The object of Fire Insurance is the protection against loss by fire. When reference is made to insurance on stock in trade, the cost of this protection depends upon the class of business, the material and condition of the building in which it is conducted, and the nature of the surrounding buildings, etc. The cost is usually quoted as a rate per cent. on the policy. The insurer may insure for any amount, but if insurance is placed for an amount in excess of the value of the property, the amount of the loss only will be paid by the insurance company. While it is desirable that property should be insured for the amount of its actual value, it would be folly to insure it for a greater amount as in that event premiums would be paid for more insurance than is required, and consequently more than would be paid in event of a total loss.

As a stock of merchandise is continually altering in value owing to sales and receipt of goods, it is very important that a Perpetual Inventory be kept, so that the value of the stock on hand can easily be ascertained at any time. The merchant should insure so that he will get the full value for his buildings or goods in the event of a complete loss.

§ 224. **Eighty Per Cent. Co-Insurance Clause.** It is the usual practice in Canada for insurance companies to give a lower rate to those who insure up to 80% of the value of the property insured. This lower rate is given by including in the policy a special clause called an 80% co-insurance clause which reads as follows:

> "It is a part of the consideration of this policy, and the basis upon which the rate of premium is fixed, that the Assured shall maintain insurance concurrent in form with this policy on each and every item of the property hereby insured, to the extent of at least *eighty per cent.* of the actual cash value thereof, and that, failing to do so, the insured shall be an insurer to the extent of an amount sufficient to make the aggregate insurance equal to *eighty per cent.* of the actual cash value

of each and every item of the property hereby insured, and in that capacity shall bear his, her or their proportion of any loss that may occur."

On certain classes of insurance, a 90% Co-Insurance is required, but 80% is the requirement of the average risk.

While such a clause is an advantage to the policy holder on account of the reduced rate offered if this clause is inserted, it must be remembered that it will work out greatly to his disadvantage should he have a partial fire loss at a time when his stock is high and his insurance in force does not cover 80% of the value of his stock. This can be best appreciated by a careful study of the explanation of the application of the 80% Co-Insurance Clause in the accompanying illustration.

Explanation of the Application of the Eighty Per Cent. Co-Insurance Clause.

¶ 1. This clause does *not* affect a settlement of loss:—

(*a*) When the property insured is destroyed to the extent of *80% or more of its value.*

(*b*) When the property is insured for *not* less than 80% of its actual cash value, whether the loss is total or partial.

¶ 2. This clause *affects* the settlement of a loss *only in the event of the property being PARTIALLY destroyed*, when the insurance is less than 80% of the *actual cash value of the property.*

Actual Value of Property.	Amount of Loss	Insurance Required by 80% Clause.	Insurance Actually Carried.	Amount short of 80% Requirements.	Amount paid by Company.	Amount Contributed by Assured.
$10,000	$9,000	$8,000	$9,000	Nil	$9,000	Nil
10,000	4,000	8,000	9,000	Nil	4,000	Nil
10,000	9,000	8,000	6,000	$2,000	6,000	Nil
10,000	6,000	8,000	6,000	2,000	4,500	$1,500

Diagram showing the effect of the 80% Co-insurance Clause under varying conditions

To illustrate: Student sustains a loss of $4,000 on property worth at the time of the fire $10,000. He holds a policy of $6,000 subject to the 80% Co-Insurance Clause. The amount of insurance required under the 80% Co-Insurance Clause, 80% of cash value of stock, $10,000 = $8,000. Amount of insurance actually held, $6,000, deficiency $2,000. For this deficiency student is required to take the place of another insurance company and to sustain the same proportion of the loss as the deficiency, $2,000, bears to the total required insurance, $8,000.

INSURANCE

DATE OF POLICY		POLICY No.	COMPANY	AGENT	AGENTS PHONE.	AMOUNT OF POLICY		ON	TERM
19— May	1	43267	Canadian Fire	Walter Black	M421	8000	—	Stock	1 Y
Aug	1	74321	Royal	Irish & Johnston	M92	8000	—	Stock	1 Y
Oct	1	92631	Royal	" "	"	4000	—	Stock	1 Y
"	1	92632	Royal	" "	"	8000	—	Bldg	3 Y

Illustration No. 150

TRADE ACCEPTANCE
FORM APPROVED BY THE
AMERICAN TRADE ACCEPTANCE COUNCIL
EMBRACING COMMITTEES OF
CHAMBER OF COMMERCE OF THE U. S. A.
AMERICAN BANKERS' ASSOCIATION
NATIONAL ASSOCIATION OF CREDIT MEN

No. 45 Cincinnati, Ohio, July 19 191

To Pemberton & Seaton Lexington, Ohio

On August 23 Pay to the order of Ourselves

One Hundred Seventy-five — Dollars, ($175.00)

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer. The drawee may accept this bill payable at any bank, banker or trust company in the United States which he may designate.

Accepted at Lexington O (CITY) on July 24 191 (DATE)
Payable at Lexington National Bank (NAME OF BANK)
Pemberton & Seaton (SIGNATURE OF ACCEPTOR)
By Seaton

J. A. Whitney & Co.
By Whitney

Illustration No. 151 Trade Acceptance (*from 20th Century Bookkeeping and Accounting*)

The loss of $4,000 would be apportioned as follows: The Insurance Company insures $6,000 and contributes 6,000/8,000 of the loss $4,000 = $3,000. The student is co-insurer for $2,000 and contributes 2,000/8,000 of the loss $4,000 = $1,000, showing that the student is the loser by $1,000 for not having maintained his insurance up to 80% of the value of his property as agreed upon under the 80% co-insurance clause, even though he has carried and paid for insurance to the extent of $6,000, and has had his stock damaged to the extent of only $4,000, which is a smaller amount than is covered by his policy. If the 80% co-insurance clause had been omitted from his policy, he would have been required to have paid a higher rate for his insurance, but in the event of the above loss, he would have collected from the insurance company, not $3,000 according to the above illustration, but the total amount of the loss sustained, $4,000.

Oct. 7. *Receipts.* Henry Bell, full of account, check for $4,265.16, exchange included in check $x.xx, discount earned $xx.xx; C. E. Mann, check $520.65, exchange xxc, included; Geo. Miller, check $300.38, exchange xxc, included. Geo. R. Moore, check full of account.

NOTE.—Check the correctness of each entry in the Cash Book by comparing the total Debit entries with the total Credit entries.

REGISTER

DATE OF EXPIRATION		PREMIUM		UNEXPIRED LAST FIN. YR.		COST OF INSURANCE PER MONTH ON EACH POLICY												UNEXPIRED ON CLOSING	
						JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.		
May	1	96	—							8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	32	—
Aug	1	96	—										8.00	8.00	8.00	8.00	8.00	56	—
Oct	1	48	—												4.00	4.00	4.00	36	—
"	1	48	—												1.33	1.33	1.34	44	—

Filled Orders:—Oct. 7, Counter Cash Sales, 5 gro. Pencils, #21 HB.; 2 gro. Pencils, #21 B.; 5 lb. Rubber Bands. Total, $108.00.

Oct. 7. Deposit all Cash on hand.

Oct. 7. *Certified Invoices:*—

Oct. 8, 19 . Grand & Jones, Terms Net 30 days, 2% 10 days. 1 Office Desk, $95.00; 1 Burroughs Adding Machine, $300.00; 100 Rolls Adding Machine Paper, $10.00; 2M. Special Ledger Sheets (for office use) $8.00. Total, $413.00.

Oct. 8, 19 . W. J. Gray. Terms Net 30 days. Shipping Room Twine, $15.00; Wrapping Paper, $10.00; 5M. Perpetual Inventory Sheets for office use @ $4.00—$20.00. Total, $45.00.

Oct. 8. A Debit Slip received from the bank shows exchange on Deposit of Oct. 7th as follows: Calgary, $5.33; Collingwood, 65c; Stratford, 38c; St. John, 95c. Total, $7.31.

Filled Orders:—

Oct. 9. John Holt, Brockville, Ont., via Can. Express. Terms Net 60 days, 2% 30 days. Subject to Draft. 100 Spellers, Canadian Business; 5 gro. Rulers, 15″, #137.

Oct. 9. A. R. King & Son, Victoria, B.C., via C.P.R. Terms Net 60 days, 2% 30 days. Subject to Draft. 10 gro. Rulers, 12″, #136; 20 lbs. Rubber Bands, #85; 100 gro. Pens, Sprott's No. 10; Casing, $1.50.

Oct. 9. C. E. Mann, Collingwood, Ont., via Can. Express. Terms Net 60 days, 2% 30 days. Subject to Draft. 50 gro. Pens, Sprott's No. 3; 50 gro. Pens, Sprott's No. 2; 100 gro. Pens, Sprott's No. 1.

Oct. 9. Geo. Miller, Stratford, Ont., via G.T.R. Terms Net 60 days, 2% 30 days. Subject to Draft. 20 gro. Penholders, Velvet; 25 gro. Penholders, Fingerfit; 50 gro. Pencils, #21 B.; 75 gro. Pencils, #21 HB.; Casing, $3.00.

Oct. 9. Geo. R. Moore, St. John, N.B., via C.P.R. Terms Net 60 days, 2% 30 days. Subject to Draft. 30 doz. Paste, Stafford's W.W.; 100M. Paper Fasteners, S2; 25M. Paper Fasteners, S1; 10 doz. Inkstands, #712; Casing, $2.75.

Oct. 9. Robt. Morrison, Edmonton, Alta., via C.P.R. Terms Net 60 days, 2% 30 days. Subject to Draft. 10 gro. Ink, Commercial, 2 oz.; 20 gro. Erasers, P. & P.; 25 gro. Erasers, Type.; Casing, $2.50.

Have your work checked by your teacher and post all items affecting personal accounts.

Post from the Cash Book first, the Purchase Book and Sales Book afterwards.

Oct. 9. A bank messenger has left in the office a Sight Draft drawn on Adams & Gordon by The Canadian Typewriter Co. in favor of the Bank of Montreal for $3.00. Mr. Adams has accepted this draft payable at the College Bank.

Read the matter pertaining to Sight Drafts on page 150.

Make the necessary entry on the Paid side of the Cash Book, debiting The Canadian Typewriter Co.

NOTE.—All drafts accepted by Adams & Gordon will be made payable at the College Bank. No further reference will be made to this.

Oct. 9. Mr. Adams has accepted a sight draft of $16.00 drawn by Grand & Jones.

Oct. 10. Mr. Adams has drawn Sight Drafts in favor of the College Bank on the following customers: John Holt, $1,900.00; C. E. Mann, $67.20; Geo. Miller, $1,260.00; Peoples Stationery Co., $36.40; W. K. Wright, $249.20. *Write the drafts.*

§ 225. There are two well established methods of making records of Sight Drafts drawn on customers: 1st, that of crediting the customer for the amount of the draft as soon as it is drawn, debiting Cash and depositing the draft the same as a check; 2nd, that of omitting the record in the Cash Book entirely when the draft is drawn and not making any record except a lead pencil memo. "S.D." in the customer's ledger account to the effect that a Sight Draft has been drawn. When this method is followed the Sight Draft would not be entered on the deposit slip when making a deposit, but on a collection slip.

BILLS

No.	Drawee (Draft) or Maker (Note)	Payee	Memorandum: Where Payable	Interest Rate	Date of Issue		Tenor: Date	Tenor: Sight	Year
1	C.R. Andrews	College Bank			Oct	16	5 days		19–
2	Davis & Bell	" "			"	16	5 "		19–
3	A.R. Dow	" "			"	16	5 "		19–
7	C.E. Mann	" "			"	16	5 "		19–
8	Robt. Morrison	" "			"	16	14 "		19–
9	Russell & Brown	" "			"	27	42 "		19–
10	W.A. Murray	" "			"	27	31 "		19–

RECEIVABLE

Due: Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Debits: Bills Rec. Face	Sales Disc.	Credits: Personal Accounts, Cr.: Name	✓	Amount	Interest Cr.	Other Accounts Cr.: Account	✓	Amount	Disposition: Date Left for Collection		Date Discounted	Remarks
									24			800 —		Andrews C.R.		800 —					Oct	16		
									24			328 —		Davis & Bell		328 —					"	16		
									24			390 —		Dow A.R.		390 —					"	16		
									24			1440 —		Mann C.E.		1440 —					"	16		
										2		1320 —		Morrison Robt.		1320 —					"	16		
											8	1517 —		Russell & Brown		1517 —					"	27		
										27		285 75		Murray W.A.		285 75					"	27		
												7605 75				7605 75								

Illustration No. 152 The Bills Receivable Book

BILLS

No.	Drawer (Draft) or Payee (Note)	Where Payable	Memorandum: Interest Rate	Date of Issue		Date of Acceptance		Tenor: Date	Tenor: Sight	Year
1	Canadian Importing Co.	College Bank		Oct	17	Oct	19	16 days		19–
2	Lufkin Rule Co.	" "		"	18	"	20	12 "		19–
3	Dominion Pencil Co.	" "		"	24	"	26	14 "		19–
4	Grand & Jones	" "		"	25	"	26	10 "		19–

PAYABLE

Due: Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Credits: Bills Pay. Face	Pur. Disc	Debits: Personal Accounts Dr. Name	Amount	Interest Dr.	Other Accounts Dr. Account	Amount	Disposition	Date Paid		Remarks
										5		800 —		Can. Imptg Co.	800 —					Nov	8	
										2		1160 —		Lufkin Rule Co.	1160 —					"	3	
										10		5880 —		Dom. Pencil Co.	5880 —					"	10	
										7		413 —		Grand & Jones	413 —					"	7	
												8253 —			8253 —							

Illustration No. 153 The Bills Payable Book

No further record would be made until the draft had been reported paid by the bank. The bank does not send a notification of payment to the client, but simply enters the proceeds to the credit of the client in his Pass Book. The record of the credit may be easily distinguished from a deposit, because the name of the payee is entered in the Pass Book opposite the amount credited. When the draft has been paid and is credited to the client by the bank, the bookkeeper then gives credit to the customer for the payment.

Both of the above methods of making records for Sight Drafts drawn on customers are used in business and each has its advantages and disadvantages. The disadvantage of the former is, that as unfortunately many Sight Drafts are returned unpaid, a contra entry debiting back to the customer the amount of the unpaid draft becomes necessary for each draft so returned. If the customer had not been credited, as in the second plan, both the credit and debit entries for such a returned draft would have been avoided and the account would have been in a better condition, as contra or cross entries should always be avoided if possible.

The second method also has its disadvantages. As lead pencil memos. only for Sight Drafts are made in the Ledger, great care must be exercised in sending out statements. When looking over the bank pass book or the bank statement for credits given on account of payment of drafts, great care must be taken to separate the credits resulting from matured time drafts and those resulting from sight drafts, as the customer has already been credited for the amount of a matured time draft and according to this method he *must now* be credited with the proceeds of sight drafts paid.

A third and better method of treating sight drafts is that referred to on page 150, in which the sight draft is recorded in exactly the same manner as a time draft.

> In the work of this month you will credit each customer for Sight Drafts drawn and deposit the drafts as you would checks. The bank will charge you a higher exchange on Sight Drafts than it would on Checks.
>
> Make entries in your Cash Book for the Sight Drafts drawn on customers.
>
> Oct. 10. Deposit all cash.

Oct. 10. *Payments.* Dominion Pencil Co., in full of account including exchange, $981.22, exchange $1.22; Stafford Ink Co. in full of account, $692.80.

Oct. 12. *Debit Slip* received from Bank: Brockville, $2.63; Collingwood, 25c; Stratford, $1.83; Your Address, 15c; Vancouver, 56c; Total, $5.42.

Oct. 12. Accepted a Sight Draft drawn by Patterson & Co. for $4,884.10 for balance of account due, including exchange.

Filled Orders:—

Oct. 12. Geo. R. Moore, St. John, N.B., via C.P.R. Terms Net 60 days, 2% 30 days. Subject to Draft. 50 Arithmetic; 15 Cash Books; 10 gro. Erasers, P. & P.; 15 gro. Erasers, Type.; Casing, $2.50.

Oct. 12. Geo. Miller, Stratford, Ont., via G.T.R. Terms Net 60 days, 2% 30 days. Subject to Draft. 15 doz. Inkstands; 20 Journals; 20 doz. Paste, Stafford's W.W.; Casing, $3.00.

Oct. 12. A. C. Graham, Winnipeg, Man., via C.P.R. Terms Net 60 days, 2% 30 days. Subject to Draft. 10 gro. Rulers, 12″; 12 gro. Rulers, 15″; 100 Spellers, Canadian Business; Casing, $3.00.

Oct. 12. C. R. Andrews, 159 Bank St., Ottawa, Ont., via C.N.R. Terms Net 60 days, 2% 30 days. Subject to Draft. 75 gro. Penholders, Fingerfit; 50 gro. Penholders, Velvet; 50 gro. Pens, Sprott's #1; 100 gro. Sprott's Pens, #2; Casing, $4.50.

Oct. 12. Russell & Brown, Winnipeg, Man., via C.P.R. Terms Net 60 days, 2% 30 days. Subject to Draft. 25M. Paper Fasteners, S1; 30M. Paper Fasteners, S2; 20 doz. Paste, Stafford's W.W.; 50 gro. Pencils, #21 HB.; 60 gro. Pencils, #21 B.; Casing, $3.00.

Oct. 12, 19 . Henry Bell & Co., 121-23rd St., Calgary, Alta., via C.P.R. Terms Net 60 days, 2% 30 days. Subject to Draft. 15 Journals; 20 L.L. Binders, #415; 20M. L.L. Sheets; 20 Index; 65 gro. Pens, Sprott's No. 2; Casing, $2.75.

Counter Cash Sales:—10 Arithmetic; 4 Cash Books; 1 gro. Erasers, Type.; 5 Journals.

Oct. 13. Shortages in Filled Orders of Oct. 9th have been reported. Assuming that these claims are correct, issue Credit Notes and make the necessary records in the Perpetual Inventory.

Geo. R. Moore, St. John, N.B. Short on invoice of Oct. 9th, 3M. Paper Fasteners, S2, $7.20.

Robt. Morrison, Edmonton, Alta. Short on invoice of Oct. 9th, 1 gro. Erasers, P. & P., $5.60.

Oct. 14. *Properly Certified Invoices:—*

Oct. 14, 19 . Patterson & Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 50 Cash Books, 500 pp. #412 @ $3.00—$150.00; 60 Journals, 500 pp. #412 @ $3.00—$180.00. Total—$330.00.

Oct. 12, 19 . Commercial Text Book Co., Toronto, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 200 Arithmetic @ $3.00, less 20 & 20—$384.00; 200 Spellers, Canadian Business, @ $1.00, less 20 & 20—$128.00; Casing, $1.00. Total—$513.00. (Pay freight, $1.20, out of Petty Cash.)

Oct. 14, 19 . Canadian Importing Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 50 gro. Erasers, P. & P., @ $6.00, less 33 1/3%—$200.00; 50 gro. Erasers, Type, @ $15.00, less 40%—$450.00; 100 gro. Pencils, #21 HB., @ $8.00—$800.00; 100 gro. Pencils, #21 B., @ $8.00—$800.00. Total—$2,250.00.

Oct. 10, 19 . Dominion Pencil Co., St. Urbain St., Montreal, Que., via G.T.R. Terms Net 30 days, 2% 10 days. 50 doz. Inkstands @ $50.00, less 40 & 20—$1,200.00; 300 gro. Penholders, Fingerfit, @ $10.00—$3,000.00; 200 gro. Penholders, Velvet, @ $8.00—$1,600.00; 25 lbs. Rubber Bands @ $4.00, less 25%—$75.00; Casing, $5.00. Total—$5,880.00. (Pay freight, $49.00, by check.)

Oct. 14, 19 . Stafford Ink Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 16 gro. Ink, Carmine, 2 oz. @ $25.00 − 20 & 25—$240.00.

Oct. 12, 19 . Lufkin Rule Co., Hamilton, Ont., via G.T.R. Terms Net 30 days, 2% 10 days. 50 gro. Rulers, #136, 12″ @ $16.00—$800.00; 50 gro. Rulers, #137, 15″ @ $24.00—$1,200.00; Casing, $1.25. Total—$2,001.25. (Pay freight, $1.35, out of Petty Cash.)

Make the necessary records, including the additions to the Inventory Sheets.

Filled Orders:—

Oct. 14, 19 . The Peoples Stationery Store, 127 St. Catherine St. W., Montreal, Que., via Freight C.O.D. 150 Arithmetic, New Method; 100 Spellers, Canadian Business; 100 gro. Pens, Sprott's No. 10; Casing, $3.75.

NOTE.—Mr. Adams has secured a report on the Peoples Stationery Co. of Montreal and has found it to be a branch of the Peoples Stationery Co. of Your Address. As your business dealings with this firm have not been satisfactory, and as the report received is not favorable, Mr. Adams has decided to ship these goods C.O.D.

§ 226. **Shipping by Freight C.O.D.** Freight shipments may go forward C.O.D. by using an *Order Bill of Lading*, which is a negotiable document made in triplicate, very much similar to the regular Straight Bill of Lading. See illustrations No. 142 and 154.

The Original is printed on yellow paper and must be properly endorsed and surrendered to the Railway agent at destination before the goods will be delivered. The procedure in shipping C.O.D. is as follows: The goods shipped, instead of being addressed to the purchaser, are addressed to the *shipper* at the address of the purchaser. In making out the Bill of Lading, the shipper consigns the goods to the order of himself (or his bank), with the memo. "Notify..........(name of purchaser)......" He draws a Sight or Demand

Draft on the purchaser in favor of the vendor's bank, endorses the Bill of Lading to his bank, attaches it to the Draft and lodges the draft in the bank for collection. The bank forwards the draft with the Bill of Lading to its branch or correspondent in the town or city of the purchaser. The memorandum, which in Canada is printed on blue paper to distinguish it from the memorandum of a straight bill of lading, is forwarded to the purchaser as a notification that the goods have been shipped to him. As the Original of the Order Bill of Lading is held by the bank, it is necessary for the purchaser of the goods to pay the draft before the Bill of Lading will be surrendered to him. Upon payment of the draft, the Bill of Lading is endorsed and delivered to him and he in turn endorses it to the transportation company for the release of the goods. The proceeds of the draft are then credited back to the bank of the vendor and he is given credit in his bank pass book for the amount less collection charges.

If it is the custom of the vendor to enter his Sight Drafts on a deposit slip as he would checks, in other words to discount them, he will of course receive credit for the proceeds of the draft when it is so deposited. If on the other hand it is his custom to leave his Sight Drafts at the bank for collection, he will receive credit for the proceeds when the amount is reported back to his bank as previously suggested.

> Mr. Adams has drawn the sight draft. Open an account for the Peoples Stationery Co., Montreal, Que., and charge them with the goods sold. Make an entry in the Cash Book for the draft, crediting Peoples Stationery Co. The account is opened so that you may have a record in the ledger under the proper heading. If this firm is charged with the goods, they must be credited when the Sight Draft is drawn, hence the entry in the Cash Book. Some bookkeepers prefer to open a C.O.D. account in the ledger and charge it with all sales of this nature, crediting the account when the remittances are credited by the bank or received from the Express Company if the goods are shipped by express. This is not a good plan, however, unless the shipments are not very numerous, as a detailed record of the transactions with each firm is not then recorded.
>
> Oct. 14. Deposit all cash on hand, including the Sight Draft.

Oct. 15. Accepted Sight Draft drawn by Lufkin Rule Co. for balance due on their account, $xx.xx, to which they have added bank charges, $3.05.

> Make the necessary entry. Have your work checked by the teacher and post all items affecting personal accounts, posting from your Cash Book first.

Oct. 15. Bank Debit Slip—Montreal, $1.00.

Oct. 15. Paid salaries by checks: Geo. Adams, $100; Henry Gordon, $75.00; Travellers' Salaries, less $30.00 retained as this amount was prepaid, see statement, $90.00; Office Salaries, $62.00; Warehouse Salaries, $46.00.

> Oct. 16. Draw a Time Draft (after date) in favor of the College Bank on C. R. Andrews for amount due on Oct. 21st, $800. This draft should be dated Oct. 16 at five days for $800, due Oct. 24th. As the amount of the account, $800, falls due on Oct. 21st, to be accurate we should draw on Mr. Andrews at *two days*, so that taking the days of grace allowed on the draft into consideration, the draft would mature on Oct. 21, the date on which the invoice is due. Such a fine line is not usually drawn in business and it is the usual custom to draw as suggested above. It must be remembered by the student, however, that *days of grace are NOT allowed on an invoice,* and it may be due to this liberal method of drawing on customers that this incorrect theory has been entertained in some business circles.
>
> Write the draft on a draft form and present it to your teacher for approval. If correct, make the proper record in your *Bills Receivable Book,* crediting C. R. Andrews for the face of the draft.

When such a draft is drawn, it is forwarded to C. R. Andrews for his acceptance. This is done by placing the draft in the bank, either for collection or discount In this month of your work, your drafts will be placed in the bank for collection. A draft may

also be placed in the bank for "A & R," which means "Acceptance & Return." Under these conditions the draft would be presented to Andrews for his acceptance and returned to Adams & Gordon to be kept in their safe until due, when it would be sent forward for collection. This "A & R" method of treating drafts is now very uncommon, and it is the usual practice to allow the bank to retain the draft in its possession until it is due. When a draft is left at the bank for collection or discount, it is *not* the custom of the bank to notify its client that the draft has been accepted. The bank will notify the client if the draft has been dishonored, that is, *returned unaccepted*, but it is taken for granted that, if no notification of dishonor is received by the drawer, the draft has been accepted. As drafts are not supposed to be drawn unless the debt will fall due on or before the date of the draft, it is assumed by the drawer that every draft will be accepted. On that account, he considers every time draft a *Bills Receivable* just as soon as it is drawn, and immediately records it in his Bills Receivable Book as such. All drafts will be drawn by you in favor of the College Bank.

Oct. 16. Drafts Drawn on Customers: Davis & Bell, five days after date, $328; A. R. Dow, five days after date, $390; Robt. Duncan, five days after date, $765; A. C. Graham, at sight, $1,100; John Holt, five days after date, $380; A. R. King & Son, fourteen days after date, $380; C. E. Mann, five days after date, $1,440; Geo. Miller, at sight, $412; Robt. Morrison, fourteen days after date, $1,320; J. D. Russell, at sight, $1,230; W. K. Wright, at sight, $345. (*Unless otherwise directed all Time Drafts, either drawn or accepted, will be drawn payable after date.*) *Write the Drafts.*

Examine your Accounts Receivable to see that each draft is drawn for the proper amount and for the proper time. Write each draft on a blank draft form.

Enter the sight drafts in the Cash Book as usual.

Enter the time drafts in the Bills Receivable Book.

Oct. 16. Deposit all Cash.

Oct. 16. Leave all time drafts drawn at the College Bank for collection.

Make an entry in the Bills Receivable Book in "Disposition" section, recording in the "Collection Date" column the date on which these time drafts were left at the bank for collection.

Oct. 16. A Debit Slip has been received from the bank showing charges to our account as follows: *Exchange:*—Winnipeg, $1.63; Stratford, 77c; Montreal, $1.79; Vancouver, 68c. Total—$4.87. Peoples Stationery Co.'s Draft, $36.40, returned unpaid at maturity.

Make the necessary entry for exchange.

The sight draft drawn by you on the Peoples Stationery Co. and deposited by you in the bank, has been presented by the bank for acceptance, accepted, held by the bank until maturity, and presented by the bank for payment at the place designated on the acceptance. The payment was not made according to the acceptance, so it became necessary for the bank holding the draft to return it to your bank dishonored. Your bank now notifies you that, having given you credit for the amount of the proceeds of this draft when it was deposited by you similar to a check on Oct. 10th, they are now obliged to charge your account back with the face value, owing to their inability to collect the amount due on the draft at maturity. On Oct. 10th, when you deposited this draft, you made the entry in your Cash Book as follows:—Cash, Dr. $36.40 / Peoples Stationery Co., Cr. $36.40. You must now make the opposite entry, viz.:—Peoples Stationery Co., Dr. $36.40 / Cash, Cr. $36.40. This will be accomplished by making a record in the Payments side of the Cash Book, debiting the Peoples Stationery Co. for $36.40. In the Memo. column, make the entry "Accept. Ret."

Oct. 17. *Cash Receipts.* Check dated Oct. 10th from Robt. Morrison, Edmonton, Alta., for invoice of Sept. 12th, less discount 2%.

Assuming that your place of business is five days' journey from Edmonton (considering possible delays), it is very likely that any firm would accept this amount as settlement

This color and form of Bill of Lading shall only be used upon shipments consigned to "order. In billing shipments of this character a conspicuous notation must appear upon the waybill reading "The surrender of the original ORDER Bill of Lading, properly indorsed, must be required before the delivery of the goods."

Form 9a

Form of Order Bill of Lading approved by the Board of Railway Commissioners for Canada by Order No. 7562 of 16th July, 1909

CANADIAN PACIFIC RAILWAY COMPANY

ORDER BILL OF LADING—ORIGINAL

Shipper's No. ....

Agent's No. ....

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at Your Place, Canada. Oct. 22nd, 19....

from Adams & Gordon the goods described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said goods over all or any portion of said route to destination, and as to each party at any time interested in all or any of said goods, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER Bill of Lading properly indorsed shall be required before the delivery of the goods. Inspection of goods covered by this bill of lading will not be permitted unless provided by law or unless permission is indorsed on this original bill of lading or given in writing by the shipper.

The Rate of Freight from ....

to .... *is in Cents per 100 Lbs.*

IF .... Times 1st	IF .... Class	IF .... Class	IF .... Class	IF .... Class	IF .... Class	IF .... Class	IF .... Class	IF .... Class	IF .... Class	IF .... Class	IF Special per ....

(Mail Address—Not for purposes of delivery.)

Consigned to **ORDER OF** The College Bank

Destination, Calgary Province or State of Alta. County of ....

Notify J. C. Robertson & Co.

At Calgary Province or State of Alta. County of ....

Route All Rail Car Initial .... Car No ....

No. Packages	DESCRIPTION OF ARTICLES AND SPECIAL MARKS.	WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN
2	Cases Stationery			

If charges are to be prepaid, write or stamp here. "To be Prepaid."

Received $ .... to apply in prepayment of the charges on the property described hereon.

.... Agent or Cashier.

Per ....

(The signature here acknowledges only the amount prepaid.)

Charges Advanced :

$ ....

ADAMS & GORDON. Shipper. .... Agent.

Per G.K. Per ....

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

Illustration No. 154 An Order Bill of Lading

of the account which was due on Oct. 10, allowing the discount. Mr. Adams is quite willing to do so.

> Make the proper entry in the Cash Book. A complication now arises because you have already drawn on Robt. Morrison at 14 days for this amount and it is too late to stop the draft from going forward. Your only procedure is to immediately notify the bank to recall the draft and write to Mr. Morrison, advising him that you have so notified the bank and requesting him to return the draft to the messenger attaching a memo. to that effect, or a copy of your letter. Write the letter and submit it to your teacher for approval.
>
> Since the total of the drafts recorded in the Bills Receivable Book will at the end of the month be posted to the *Debit* of Bills Receivable Account in the General Ledger, it will be necessary for you now to make a contra entry reversing the entry made when the draft was drawn. As this draft was not discounted but only left for collection, you have not received credit at the bank for the proceeds, therefore cash does not enter into this entry, and as a result the entry would not affect the Cash Book. Make the entry in your General Journal. This entry may be made now or when the draft is returned to you by the bank. Make a memo. in the "Remarks" column of the Bills Receivable Book indicating that draft is to be returned.

Oct. 17. Deposited all cash.

Oct. 18. A Debit Slip is received from the Bank charging exchange on Edmonton, $1.62.

Oct. 19. Mr. Adams has accepted, payable at the College Bank, a draft dated Oct. 17th, drawn by the Canadian Importing Co. on Adams & Gordon in favor of the Bank of Montreal at sixteen days after date for $800.

> Write the draft including the acceptance. Make the proper record in the Bills Payable Book, see illustration No. 153.

Oct. 20. Drafts accepted payable at College Bank:—Lufkin Rule Co., dated Oct. 18, at twelve days after date, in favor of Dominion Bank for $1,160. Patterson & Co., dated Oct. 19, at sight, favor of Bank of Commerce for $1,400.

Oct. 22. *Filled Orders (all regular terms)*:—Henry Bell, Calgary, Alta., C.P.R. 100 Spellers; 20 gro. Rulers, #137, 15"; Casing, $1.50.

Davis & Bell, Halifax, N.S., via C.P.R. 25 gro. Rulers, #136, 12"; Casing, $1.50.

A. R. Dow, Brandon, Man., via C.P.R. 20 lbs. Rubber Bands, #85; 200 gro. Pens, Sprott's #10; 400 gro. Pens, Sprott's #3; Casing, $3.00.

Robt. Duncan, Hamilton, Ont., via G.T.R. 200 gro. Pens, Sprott's #2; 300 gro. Pens, Sprott's #1; 50 gro. Penholders, Velvet; Casing, $3.00.

John Holt, Brockville, Ont., via G.T.R. 50 gro. Penholders, Fingerfit; 50 gro. Pencils, #21 B.; Casing, $4.50.

A. R. King & Son, Victoria, B.C., via C.P.R. 75 gro. Pencils, #21 HB.; 30 doz. Paste, Stafford W.W.; 100M. Paper Fasteners, S2; Casing, $3,25.

C. E. Mann, Collingwood, Ont., via G.T.R. 75M. Paper Fasteners, S1; 40 L.L. Binders, #415; 30 L.L. Indexes, Can. Tabs, 28's; 30M. L.L. Sheets; Casing, $4.25.

Oct. 22. *Properly Certified Invoices:*—

Oct 22. Commercial Text Book Co., via G.T.R., 30/2%, 10. 400 Spellers, Can. Bus., $1.00—20 & 20, $256.00; 1,000 gro. Pens, Sprott's #10, $1.10, $1,100.00; 1,000 gro. Pens, Sprott's #3, $1.10, $1,100.00; 1,000 gro. Pens, Sprott's #2, $1.10, $1,100.00; 1,000 gro. Pens, Sprott's #1, $1.10, $1,100.00; Casing, $4.00. Total, $4,660.00. Pay Freight out of Petty Cash, $3.92.

Oct. 20. Lufkin Rule Co., Hamilton, Ont., via Boat & Rail, 30/2%, 10. 50 gro. Rulers, #137, 15", $24.00, $1,200.00; 100 gro. Rulers, #136, 12", $16.00, $1,600.00; Casing, $2.00. Total, $2,802.00. Pay Freight, $1.98, out of Petty Cash.

Oct. 21. Dominion Pencil Co., 29 St. Urbain Street, Montreal, Que. C.P.R. 200 lbs. Rubber Bands, $4.00—25%, $600.00; 300 gro. Penholders, Velvet, $8.00, $2,400.00; 300 gro. Penholders, Fingerfit, $10.00, $3,000.00; 100 doz. Inkstand, #712, $50.00—40 & 20, $2,400.00; Casing, $22.00. Total, $8,422.00. Freight, $42.16, paid by check.

Oct. 24. Canadian Importing Co., your address, delivery, 30/2%, 10. 200 gro. Pencils, #21 B., $8.00, $1,600.00; 200 gro. Pencils, #21 HB., $8.00, $1,600.00; 300M. Paper Fasteners, S2, $3.00—20% & 33 1/3, $480.00; 400M. Paper Fasteners, S1, $3.00—20 & 33 1/3, $640.00. Total, $4,320.00.

Oct. 24. Stafford Ink Co., your address, delivery, 30/2%, 10. 200 doz. Paste, Stafford, W.W., $2.00, $400.00; 50 gro. Ink, Commercial, 2 oz., $20.00—20 & 25, $600.00. Total, $1,000.00.

NOTE.—Mr. Adams has written Stafford in regard to the price on Paste. Enter the invoice as received.

Oct. 24. Have your work checked and post all items affecting Personal Accounts.

Oct. 24. Checks issued:—Canadian Importing Co., for invoice of Oct. 14.

Commerical Text Book Co. in full for invoice of Oct. 12.

Patterson & Co. in full for inv. of Oct. 14.

Stafford Ink Co. in full for invoice of Oct. 14.

Oct. 24. Receipts. Checks have been received from the following customers:—

C. R. Andrews, inv. of Oct. 1, $312.62.

Henry Bell for invoice of Oct. 12, $641.17.

Oct. 24. Deposited all cash.

Oct. 26. Accepted Dominion Pencil Co.'s draft dated Oct. 24th drawn at 14 days in favor of Bank of Montreal for $5,880.00, also a draft drawn by Grand & Jones dated Oct. 25th at 10 days in favor of Imperial Bank for balance of their account.

Oct. 26. A Debit Slip is received from the bank. Exchange on Ottawa, 39c; Calgary, 80c = $1.19. Check the amount charged.

Oct. 26. Checks issued:—The Toronto *Mail & Empire*, Toronto, Ont., Advertising, $45.00. Pickard Cartage Co., your address, Cartage to date, $20.00. Withers & Co., for stamps, as follows:—Office, $40.00; Warehouse, $25.00.

Make entries direct through the Cash Book.

Oct. 27. Draw on customers in favor of College Bank, making drafts fall due on exact due dates of invoices:—(Write the drafts).

	Amount.	A/c due	Draft.
Russell & Brown	$1,517.00	Dec. x	x days
W. A. Murray	285.75	Nov. x	x "

Oct. 27. Leave the above drafts at the bank for collection.

Have your work checked and post items affecting Personal Accounts.

Oct. 28. The "Deposit side" of the Bank Pass Book which has been entered up to date appears as illustrated on page 182, No. 155.

By examining your Bills Receivable Book you will notice that there are certain Bills Receivable which have fallen due on Oct. 24. Each bill will be paid at the bank at which it was made payable in the town or city in which the drawee resides. It will take from two to five days to have the proceeds credited to your account in your bank, the time depending upon the distance between your town or city and that of the various drawees. It naturally follows that the proceeds for all of these bills will not be written up in your Bank Pass Book on the same date. It will be your duty to examine the Pass Book every day, check it with your Cash Book and enter in your Cash Book the proceeds of any bill receivable which has been paid and credited in the Bank Pass Book. By examining

THE COLLEGE BANK

In Account With .... Adams & Gordon

Date				Deposits		Checks		Checks		Checks	
		Bal		3974	12	22	50				
Oct	1	Dep	F	12613	—	150	—	3	—	502	74
	7	"	F	5955	71	4605	05	46	—		
	10	"	F	3512	80	30	—	90	—		
	14	"	F	680	25	9	51	100	—		
	16	"	F	3087	—	2	20	1	—		
	17	"	F	1293	60	6126	37	75	—		
	24	"	F	953	79	16	—	62	—		
	26	Mann	R	1438	20	981	22	692	80		
	26	Duncan	R	764	04	2723	89	4	87		
	27	Andrews	R	799	—	4884	10	2205	—		
	27	Dow	R	389	51	2443	05	235	20		
						7	31	1	19		
						5	42	36	40		
						49	—	1	62		

Illustration No. 155 Bank Pass Book on October 28

your Pass Book on Oct. 27th you find that four of these acceptances have been paid. The others will likely be reported before the end of the month. It will be necessary for you to enter in the Cash Book the cash realised from each. The first acceptance should be entered as follows:—Enter the net amount, $1,438.20 in the "Deposit" column so that your Bank Deposit column will agree with your Bank Pass Book. Enter the net amount, $1,438.20 in the "Cash Dr." column to show the cash actually received. Enter the Collection and Exchange, $1.80,—which is the difference between the face of the acceptance, $1,440.00, and the amount credited to your account, $1,438.20,—in the "Exchange Dr." column to show the cost of Exchange. In the "Account" column write "Bills Receivable," thereby crediting Bills Receivable Account; in the "Explanation" column enter the name of the payee. Enter the *face value* of the bill, $1,440.00, in the "General Ledger" money column. Now examine the entry you have made and you will find that you have debited and credited Accounts as follows:—Cash Dr. $1,438.20, Collection & Exchange Dr. $1.80, Bills Rec. Cr. $1,440. Total Debits, $1,440. Total Credits, $1,440. This maintains the double entry principle. Next you must make a memo. in the Bills Receivable Book in the "Remarks" column indicating that the acceptance has been paid. Enter all the other paid acceptances in the same manner.

Oct. 30. Petty Cash Payments:—Charwoman, $1.50; Delivery, $3.00; Telegram, 75c; Soap and Sundries for Charwoman, 75c.

Oct. 31. The bank has reported that your draft on W. A. Murray has been returned unaccepted with check attached for $280.04. Since the check is for less than the draft, the bank has returned the draft to you with the check attached. The check has arrived too late to permit of its being deposited.

> This action on the part of W. A. Murray is not intended to convey the impression that they do not wish you to draw on them, but is taken to earn the discount to which they are entitled if payment is made on or before Oct. 31st.
>
> Make the necessary adjusting entries and the Cash Book entries which will result from the receipt of the check.

Oct. 31. Receipts. The following checks have been received too late to deposit:—Geo. R. Moore, $684.78; C. E. Mann, $313.60.

THE COLLEGE BANK

In Account With .... Adams & Gordon

Date				Deposits		Checks		Checks		Checks	
		Bal		3974	12	22	50	Fd 22055	62	Fd 25609	70
Oct	1	Dep	F	12613	—	150	—	3	—	502	74
	7	"	F	5955	71	4605	05	46	—	1400	—
	10	"	F	3512	80	30	—	90	—	31	92
	14	"	F	680	25	9	51	100	—	25	—
	16	"	F	3087	—	2	20	1	—	40	—
	17	"	F	1293	60	6126	37	75	—	100	—
	24	"	F	953	79	16	—	62	—	120	—
	26	Mann	R	1438	20	981	22	692	80	46	—
	26	Duncan	R	764	04	2723	89	4	87	62	—
	27	Andrews	R	799	—	4884	10	2205	—	28012 75	36
	27	Dow	R	389	51	2443	05	235	20		
	31	Holt	R	379	52	7	31	1	19		
						5	42	36	40		
						49	—	1	62	B 7828	18
						22055	62	25609	70		
				35840	54					35840	54

Illustration No. 156 Bank Pass Book, October 31

Pay Salaries:—Mr. Adams, $100.00; Mr. Gordon, $75.00. Travellers' Salaries, $120.00; Office Salaries, $62.00; Warehouse Salaries, $46.00.

Oct. 31. Enter the Petty Cash summary in General Cash Book and issue check for petty expenses.

Oct. 31. Your Bank Pass Book has been balanced by the bank and appears as in illustration No. 156. Make a record in your Cash Book for any acceptance paid and not yet so recorded in your books.

Oct. 31. Recapitulate your Sales.

Oct. 31. Have all your work checked by your teacher. Post items affecting Personal Accounts. Prove the cash as follows:—The True Bank Balance as shown by a comparison of the Deposits and Checks column should be $x,xxx.xx. Received side of Cash Book:—the total of the columns, Cash Dr., Sales Discount Dr. and Exchange Dr. should be equal to the total of the columns Accounts Rec. Cr., Mdse. Sales Cr. and other Accounts Cr. Paid side of Cash Book:—the total of the columns Cash Cr., Pur. Discounts Cr. should be equal to the total of the columns Accounts Payable Dr., Exchange Dr. and other Accounts Dr. The True Cash Balance per Cash Book is the difference between the Cash Dr. column and the Cash Cr. column plus the credit balance brought forward from last month.

Rule the Cash Book and balance it according to illustrations No. 146 and 147.

Make a Bank Reconciliation Statement.

Post from the General Journal, Purchase Journal and Recapitulation of Sales as usual. Post from the Cash Journal as follows:—Post the total of the "Cash Dr." column to the debit side of the Cash Account in the General Ledger. Post the total of the "Sales Discount" column to the debit side of Sales Discounts Account. Post the total of the Exchange column to the debit side of Exchange Account. The items of the Accounts Receivable column have already been posted to the credit of the various personal accounts. Post the total of the Merchandise Sales column to the credit of Merchandise Sales Account. Post the individual items in the Other Accounts columns to the credit of the sundry accounts. When these postings have been completed, the amounts entered on the debit side of the ledger are equal to the amounts you have entered on the credit side.

Proceed with the Paid side of the Cash Book in the same way, posting the *totals* of the Cash Cr., Purchase Discounts Cr. and Exchange Dr. money column and the *items* from the other money columns. *Do not post either total or items from the Deposits or Checks columns.* These columns are memoranda only and do not affect the Ledger in any way. They are used to show the True Bank Balance. The Cash Book shows the True Cash Balance, *i.e.*, the total of Cash in Bank and Cash on hand, while the Bank Pass Book shows the Bank balance not considering checks outstanding.

Post next from the Bill Books. The total of the Bills Receivable column should be posted to the debit of Bills Receivable in the General Ledger. The items of the Accounts Receivable column have already been posted to the credit of the various personal accounts in the Sales Ledger. The credit side of the Bills Receivable account is posted from the Cash Book. The balance of the Bills Receivable Account in the General Ledger shows the face value of Bills on hand and in bank for collection and is, therefore, a liquid asset. Post the Bills Payable book in the same way, opening an account in the General Ledger for Bills Payable (Trade). The balance of the Trade Bills Payable Account in the General Ledger shows the face value of Trade notes and acceptances outstanding and is a current or floating liability.

§ 227. **Trade Bills Payable—Bank Bills Payable.** At this point it may be well for the student to note that bills payable may be divided into two classes: 1st, Trade Bills Payable, including creditors' drafts accepted by us and all promissory notes given by us to our creditors; 2nd, Bank Bills Payable, including all promissory notes given by us to our bank for the purpose of borrowing money.

While it is possible to keep a record of both of these liabilities in a common account (Bills Payable), yet for many reasons it is desirable to keep each class in a separate account. Trade Bills Payable shows the liability of the trader to his creditors, while Bank Bills Payable shows a liability to the bank which is "secured" by the deposit with the bank of some other form of security arranged for at the time when the "line of credit" was granted. On this account, auditors usually insist on a distinction being made in these two liabilities with the result that it is necessary for the bookkeeper to open in his ledger separate accounts for each.

§ 228. **Method of Recording Bank Bills Payable.** As has previously been suggested, all special books of original entry, such as the Cash Book, Purchase Book and Bill Books, are journals. They do not differ from the general journal in principle, but only in method. While in the general journal—in simple journal entries—each debit has a corresponding credit, in a special journal such as a Cash Book, a total debit corresponds with a number of credits. The great advantage to be gained, therefore, in collecting transactions of a similar nature in one book is in the time and labor saved in posting totals instead of posting individual items. Thus, when the Bills Payable book is used as a book of original entry, the total bills issued can be entered to the Bills Payable account in one sum at the end of the month or at any other time desired. If, however, Trade Bills Payable and Bank Bills Payable are to be kept separate and distinct as previously suggested, some means must be adopted for so doing, because if all bills were entered indiscriminately in the bill book, this desired separation would not be effected when the total was posted. If the number of Bank Bills Payable were very numerous, a special column might be ruled in the bill book, but as the number of these bills issued is usually *very limited*, no great saving of time or labor can be effected by entering them in the bill book, and it is therefore the general practice to *enter in the Bills Payable Book, Trade Bills Payable only*, and as the Bank Bills Payable are issued solely for the purpose of borrowing cash, to record the Bank Bills Payable for posting purposes *in the Cash Book only*, in which book they would necessarily be entered in any event, just as soon as they had been discounted.

Balance the Cash and Bills Receivable Accounts in the General Ledger. The (Trade) Bills Payable Account has all the amounts entered on one side and it is therefore not necessary to balance it. Check the balance of the Bills Receivable and (Trade) Bills

Payable Accounts in the General Ledger with the totals of the Bills Receivable and Bills Payable Books respectively.

Make a Trial Balance.

EXAMINATION, SECTION 16.

1. Define Bill of Exchange.
2. Into what two principal classes may bills of exchange be divided?
3. What other commercial terms are used for a bill of exchange?
4. Name the various commercial papers which come under the definition of bill of exchange.
5. Define Exchange, and explain the various senses in which the term is used.
6. Explain the original and present day use of a draft.
7. Name the parties to a Draft.
8. Explain the following terms with reference to drafts:—"Honor," "Dishonor," "Term or Tenor," "Maturity," "Taken up," "Redeemed," "Retired."
9. What is a Bank Draft, and how is it used in business?
10. What is the difference between a Sight and Demand Draft?
11. What are the principal "tenors" used in drawing drafts?
12. Define "Acceptance."
13. Explain the difference between a Foreign and an Inland Bill of Exchange.
14. Define a Promissory Note.
15. Name the parties to a Promissory Note.
16. Define Negotiable Instruments, and name the common commercial paper to which the character of negotiability is attached.
17. How may Negotiable Instruments be transferred to others?
18. Define Endorsement.
19. What effect have the words "or bearer" and "or order" on the negotiability of a bill?
20. What is meant by the term "Delivery" when applied to the statement "transferred by delivery"?
21. Explain terms "Backing a Note," "Allonge," "Protest."
22. Name five different forms of endorsement and explain the effect of each.
23. Define Foreign Exchange.
24. What is the monetary unit in Great Britain?
25. What is the monetary unit in Canada?
26. What is the relative value between the coins representing the monetary units in America and Great Britain?
27. What is the standard relative value called?
28. What is the par value of one pound sterling in Canadian money?
29. Does this par value always maintain in converting Canadian money into pounds, shillings, and pence?
30. If it were possible for you to buy a £1 bill of exchange on London for $4.80, how would this monetary condition be expressed in commercial terms?
31. Define Rate of Exchange.
32. At what rate of exchange are invoices from Great Britain usually converted into Canadian currency for purposes of bookkeeping? Give reasons for your answer.

Section 17

TRANSACTIONS FOR MONTH OF NOVEMBER.

The books to be used are as follows:—

Principal Books:

¶ 1. Sales Record (L. L. Manifold Billing).

¶ 2. Journals: (*a*) Purchase Book (Analysed Form); (*b*) Cash Book (Analysed Form similar to that used in month of October); (*c*) Bills Receivable Book; (*d*) Bills Payable; (*e*) General Journal.

¶ 3. Ledger: (*a*) General (*Impersonal Ledger*)
(*b*) Sales (*Personal Ledger*)
(*c*) Purchase (*Personal Ledger*)
} Balancing as one book.

Auxiliary Books:—

¶ 1. Petty Cash Sheets.

¶ 2. Bank Pass Book.

¶ 3. Perpetual Inventory.

General Instructions for Month of November:—

All Credit Notes issued to be recorded through the Sales Book.

All Credit Notes received to be recorded in General Journal.

The Bills Receivable Book will be used to record the receipt of bills only; disposition—except in case of renewals—will be recorded as a memorandum only in the bill books, and in the Cash Book for posting purposes.

The Bills Payable book will be used for the issue of "Trade" bills only. Payments will be recorded in the Cash Book.

All time drafts drawn will be lodged in the bank for collection.

All sight drafts drawn *will not be discounted as in the previous month,* but will *be lodged in the bank for collection.* Credit will *not* be given to the customer when a sight draft is drawn, but *when it is reported paid.* (Method of treating Sight Drafts No. 1*b*, see page 150, § 203.)

Filled Orders:—

Nov. 1, 19 . G. R. Arnold, your address, via Delivery. Terms Net 60 days, 2% 30 days. 10 gro. Erasers, Typewriter, #420; 10 Journal, #412, 500 pp.; 20 L.L. Binder, #415; 30M. L.L. Sheets, #415; 10 L.L. Index, 28's, Can. Tab.

Nov. 1, 19 . James Long, Ltd., your address, via Delivery. Terms, Sight Draft. 50 Arithmetic, N. M.; 15 Cash Book, #412, 500 pp.; 10 gro. Erasers, P. & P.; 15 gro. Erasers, Type.

NOTE.—Mr. Long's rating is not very satisfactory, and Mr. Adams has made arrangements to sell him on 2% discount subject to Sight Draft.

Nov. 1, 19 . Robert Brown, your address, via Delivery. Terms Net 60 days, 2% 30 days. 100 Arithmetic, N. M.; 20 Cash Book, #412, 500 pp.; 10 gro. Erasers, P. & P., #414; 10 doz. Inkstands, #712.

Nov. 1, 19 . C. R. Andrews, Ottawa, Ont., via C.N.R. Terms Net 60 days, 2% 30 days. 25 gro. Pencils, #21 HB.; 10 gro. Pencils, #21 B.; 50 Arithmetic, N. M.; 15 lbs. Rubber Bands; Casing, $2.50.

Nov. 1. W. K. Wright, Vancouver, B.C., via C.P.R. 60 days, 2% 30 days. 50 gro. Penholders, "Fingerfit"; 25 gro. Penholders, "Velvet"; 25M. Paper Fasteners, S1; 15M. Paper Fasteners, S2; Casing, $4.50.

Nov. 1, 19 . J. D. Russell, Montreal, Que., via G.T.R. Terms Net 60 days, 2% 30 days. 10 gro. Ink, Com'l, 2 oz.; 100 Spellers, Can. Bus.; 50 gro. Penholders, Fingerfit; 50 gro. Penholders, Velvet; Casing, $6.00.

Nov. 1. *Receipts.* Peoples Stationery Co., your address, check $36.40; Robert Morrison, check in full of account.

Nov. 1. Deposit all Cash.

Nov. 2. *Certified Invoices:—*

Automobile Supply Co., dated Nov. 1, your address. Terms 30 days. 1 Ford Delivery Truck, $1,825.00. (Charge Delivery Equipment Account.)

Oct. 27, 19 . Commercial Text Book Company, Toronto, Ont. Terms Net 30 days, 2% 10 days. 500 Arithmetic, New Method, @ $1.92—$960.00. Casing, $1.25. Total, $961.25. (Pay Freight, $1.20 out of Petty Cash.)

Nov. 2. A bank messenger presented for our acceptance a twenty day draft dated Nov. 1st for $4,320.00 drawn by the Canadian Importing Company in favor of the Bank of Nova Scotia. Instead of accepting this draft, Mr. Adams has issued a check for the amount of the account less discount, and attached the check to the draft.

Nov. 3. Accepted W. J. Gray's sight draft for $14.60.

Nov. 3. Received a Debit Slip from the bank as follows:—Collingwood, 39c; St. John, 86c; Regina, 35c; Edmonton, 70c. Total—$2.30.

Nov. 3. Your Bank Pass Book appears as follows:—

THE COLLEGE BANK

In Account With .... Adams & Gordon

DATE				DEPOSITS		CHECKS		CHECKS		CHECKS	
		Bal		7828	18	2	30	Fd.		Fd.	
Nov	1	Dep	F	1872	34	20	—				
	2	Davis & B	R	327	59	45	—				
	3	King	R	379	52	42	16				
						1160	—				

Illustration No. 157

On receiving your Bank Pass Book, it would be your duty to check it with your Cash Book. By first comparing the deposits column with your cash received, you will be able to check the first item as the proper Bank Pass Book Balance, brought forward from the previous month according to your Reconciliation Statement. The second item checks off with your deposit on Nov. 1st. The next two items, however, are not listed in your Cash Book. You have, therefore, been credited with two items, $327.59 and $379.52, which are not entered in your Cash Book. These were not deposits made by you, therefore they must be matured acceptances placed to your credit by the bank. The fact that the name is entered is also an indication that these amounts are the proceeds of matured drafts. It is presumed that Davis & Bell's place of business, Halifax, N.S., is a long distance from your place of business, otherwise the proceeds of their acceptance would have been placed to your credit at an earlier date.

Make the necessary entries in the Cash Book according to directions given on Oct. 28th. Next, checking the items in the checks column of the Bank Pass Book, you will find that the item $2.30 checks off with your Cash Book, but none of the other items agree. The items, $4,233.60 and $14.60, are not in the Pass Book, because they have not yet passed through the clearing house and been charged to your account in the bank. They may appear in your Pass Book to-morrow. The items, $20.00, $45.00, and $42.16, you will find in your Cash Book last month. This leaves only one item, $1,160.00, unchecked. Since you

have not issued a check for this amount, it must be a matured Bill Payable. Examine your Bills Payable Book, and you will find that No. 2 in favor of the Lufkin Rule Co. matured on Nov. 2nd. It was presented for payment at your bank, where you had marked it payable, and it has been charged to your account. Make an entry on the Paid side of your Cash Book debiting Bills Payable. On Oct. 20th when this draft was accepted by Mr. Adams, Lufkin Rule Co. was charged in the Bills Payable Book with $1,160.00, which amount was afterwards *debited* to their account in the Purchase Ledger when the items of the Bills Payable book were posted. On Oct. 31st you posted the total of your Bills Payable Book to the *credit* of Bills Payable Account in the General Ledger, and this bill of $1,160.00 helped to make up this total so posted. The entry effected at that time was, therefore, Lufkin Rule Co., Dr. / Bills Payable (Trade), Cr. All Bills Payable when issued are, therefore, entered on the credit side of Bills Payable Account and the excess of the credit over the debit side is a Liability. The entry now made in the Cash Book will result in Bills Payable Account being *debited* $1,160.00 and Cash Account being credited with the same amount. As each Bill Payable is paid at maturity, the account "Bills Payable" is, therefore, debited with the face value of the bill, or in other words the liability shown by the Bills Payable Account is reduced by the amount of the face value of each bill paid, and when all the Bills Payable have been so paid, the liability will have ceased to exist and the account "Bills Payable" will be in balance.

Nov. 5. Accepted Consumer's Box Company's sight draft in full of their account.

Nov. 5. Payments out of Petty Cash: Charwoman, $1.50; Delivery, $3.00; Telegram, $2.50; Office Supplies, $2.75; Warehouse Supplies, $3.00.

Nov. 6. Cash Counter Sales: 10 Spellers, Can. Bus.; 2 gro. Rulers, 15"; 4 gro. Rulers, 12"; 10 lbs. Rubber Bands; 14 doz. Paste. Total—$260.80.

Nov. 6. *Receipts.* From Geo. Miller, check for invoice of Oct. 9th.

Have your work checked and post all items affecting personal accounts.

Nov. 6. Deposit all Cash.

Nov. 6. Draw on James Long for amount of his account, less discount. Leave the draft at the bank for collection. (No entry, see page 186, General Instructions.) *Write the draft.*

Nov. 8. A debit slip has been received from the bank as follows: Exchange, Stratford, $2.59; Peoples Stationery Co. check returned N.S.F., $36.40.

The term "N.S.F." means Not Sufficient Funds. It will be necessary to make the adjusting entry for the return of the check in the payment side of the Cash Book.

Nov. 9. Your Bank Pass Book appears as follows:—

THE COLLEGE BANK

In Account With .... Adams & Gordon

Date				Deposits		Checks		Checks		Checks	
		Bal		7828	18	2	30	Fd.		Fd.	
Nov	1	Dep	F	1872	34	20	—				
	2	Davis & B	R	327	59	45	—				
	3	King	R	379	52	42	16				
	6	Dep	F	2336	44	1160	—				
	9	Long	R	414	51	90	—				
						323	40				
						36	40				
						2	59				
						800	—				

Illustration No. 158

Make the necessary entries. Remember that the draft drawn on Long was a Sight Draft. In this month no record is being made of sight drafts until they are *paid.*

Filled Orders:—

Nov. 9, 19 . Geo. R. Moore, St. John, N.B., via C.P.R. Terms, *Special* "10 days Net." 500 doz. Paste, Stafford's W.W., special price for quantity, $1,350.00. Casing, $4.00.

Nov. 9, 19 . Geo. R. Arnold, your address, via Delivery. Terms Net 60 days, 2% 30 days. 100 gro. Pens, Sprott's #2; 25 gro. Pens, Sprott's #10; 10 Journal, #412, 500 pp.; 20 gro. Rulers, #137, 15".

Nov. 9, 19 . Robert Brown, your address, via Delivery. Terms Net 60 days, 2% 30 days. 10 lbs. Rubber Bands, #85; 10 Cash Book #412, 500 pp.; 15 L.L. Binder, #415; 10M. L.L. Sheets, #415.

Nov. 9, 19 . James Long, your address, via Delivery. Terms 2%. Sight Draft. 25M. Paper Fasteners, S1; 30M. Paper Fasteners, S2; 20 doz. Paste, Stafford's W.W.; 50 gro. Pencils, #21 HB.; 60 gro. Pencils, #21 B.

Nov. 9, 19 . Robert Morrison, Edmonton, Alta., via C.P.R., *Freight Prepaid & Charged.* Terms Net 60 days, 2% 30 days. 75 gro. Penholders, Fingerfit; 50 gro. Penholders, Velvet; 50 gro. Pens, Sprott's #1; 100 gro. Pens, Sprott's #2; Casing, $5.50; Freight Prepaid, $8.30. Total—$1,978.80.

Nov. 9, 19 . J. D. Russell, Montreal, Que., via *Can. Exp. Prepaid & Charged.* Terms Net 60 days, 2% 30 days. 50 Arithmetic, N.M.; 50 Spellers, Canadian Bus.; Exp. Prepaid, $10.20.

§ 229. **Express Shipments.** When shipments are forwarded by express, it is the duty of the shipping clerk to enter a record of the shipment in the Express Book. Express Books are in reality blank receipts bound in book form and issued free of charge to shippers by the various express companies. As all express companies are not represented by agents in every town, when sending goods by express the shipping clerk must first select the Express Book of the Company having an express agent in the particular town or city to which the goods are consigned. A record of the shipment is then entered in the proper Express Book and the Express Company's "card" displayed in a conspicuous place, so that the driver who collects for that particular express company will see it when passing on his regular collecting route.

The driver signs the Express Book for each shipment collected. If the shipment is to go forward Express Prepaid, it should be recorded in the Prepay Book instead of the regular Express Book. This Prepay Book is made with alternate sheets perforated and of a different color from the regular sheets. A sheet of carbon paper is inserted when the record of the shipment is being entered. The collector tears out the perforated sheet and signs the original. The charge for express is entered by the express company from this sheet to the Shipper's Account, if an account be kept by the Company for the Shipper. If the express company does not keep an account for the shipper, an employee will call in a few days and will collect from the cashier of the shipper the amount of the express charged, leaving as a voucher the perforated sheet which was made out in the shipping room by the shipper and torn from the Prepay Book by the driver when the parcel was taken.

The amount paid for express on each shipment, as shown by the voucher retained by the cashier, must then be compared by the bookkeeper with the charges made to the customer when the goods were shipped. If these charges were made on the regular invoices as is the usual custom, the amount paid for such "Prepaid Express" must be kept by the bookkeeper in a separate account and at the end of the financial period must be deducted from the Merchandise Sales Account to which they shall have been posted as part of the regular invoices entered from the Recapitulation of Sales Sheet.

Nov. 10. Mr. Adams has drawn on James Long at sight for invoice of Nov. 9th. The draft has been left at the bank for collection. *Write the draft.*

Nov. 12. *Payments.* Checks have been issued as follows: C.P.R. Freight on Shipment to Robt. Morrison, Edmonton, \$8.30; Canadian Express Co., Express on Shipment to J. D. Russell, Montreal, \$10.20.

Charge "Freight & Express Prepaid" Account when entering these checks in the Cash Book.

Nov. 12. *Receipts.* John Holt, check dated Nov. 9, \$235.20. Geo. R. Moore, check dated Nov. 12, \$410.42.

Nov. 12. Deposit all cash.

Nov. 12. Have your work checked by your teacher and post all items affecting personal accounts.

Nov. 12. Your Bank Pass Book appears as follows. Check it with your Cash Book and make the necessary entries.

THE COLLEGE BANK

In Account With .... Adams & Gordon

DATE				DEPOSITS		CHECKS		CHECKS		CHECKS	
		Bal		7828	18	2	30	Pd.		Pd.	
Nov	1	Dep	J	1872	34	20	—				
	2	Davis & B	R	327	59	45	—				
	3	King	R	379	52	42	16				
	6	Dep	J	2336	44	1160	—				
	9	Long	R	414	51	90	—				
	12	Dep	J	645	62	323	40				
	12	Long	R	1483	82	36	40				
						2	59				
						800	—				
						4233	60				
						14	60				
						413	—				
						5880	—				

Illustration No. 159

Nov. 13. A Debit Slip has been received from the bank as follows:—Exchange, Brockville, 29c; St. John, 51c. Total, 80c.

Nov. 13. *Certified Invoices:—*

Automobile Supply Co. Terms Net 30 days. Nov. 8, 22 gal. Gasoline @ 40c—\$8.80; Nov. 11, 20 gal. Gasoline @ 40c—\$8.00. Nov. 11, 2 qts. Gar. Oil @ 30c—60c. Nov. 11, 1 33 x 4 Goodyear Tire, \$48.00. Nov. 11, 1 Inner Tube, \$9.00. Total, \$74.40.

NOTE.—This Tire & Inner Tube is a spare and is not purchased to take the place of one worn out.

Nov. 12, 19 . Patterson & Co., your address, via Delivery. Terms Net 30 days, 2% 10 days. 50 Cash Book, #412, 500 pp., @ \$3.00—\$150.00; 30 Journals, #412, 500 pp., @ \$3.00—\$90.00; 50 L.L. Binder, #415, @ \$8.00—\$400.00; 100M. L.L. Sheets, #415, @ \$6.00—\$600.00; 50 L.L. Index, 28's, Can. Tab, @ \$2.00—\$100.00. Total—\$1,340.00.

Nov. 13, 19 . Canadian Typewriter Co., via Delivery. Terms Net 30 days, 2% 10 days. 1 Box Carbon Paper, \$4.00; 1M. Printed Forms, \$12.00. Total Office Supplies, \$16.00.

Nov. 13, 19 . Consumers Box Co., via Del. Terms Net 30 days, 2% 10 days. 10 Cases #1 @ 75c—\$7.50; 30 Cases #2 @ \$1.00—\$30.00; 15 Cases #3 @ \$1.25—\$18.75; 10 Cases #4 @ \$1.50—\$15.00. Total, \$71.25.

Nov. 13, 19 . W. J. Gray, your address, via Delivery. Terms 30 days. 6 Rms. Kraft Wrapping Paper, 30 x 40-60 @ \$7.20—\$43.20; 6 Rms. Kraft Wrapping Paper, 30 x 20-30 @ \$3.60—\$21.60; 1 Warehouse Truck, \$25.00. Total, \$89.80.

Grand & Jones, your address. Terms Net 30 days, 2% 10 days. 1 Zinc Etching, $9.00; 1 Half Tone, $18.00; Photographing, $4.00; Artists' Work, $12.00. Total, $43.00.

NOTE.—As these engravings are for Newspaper advertising and are of such a nature that they will be entirely obsolete in a short time, they will be charged to "Advertising." If these engravings could be used for a number of years, it would be quite in order to open an account for Cuts & Engravings, the depreciation on which would be charged to Advertising or to General Expense according to the department in which the engravings are used.

Nov. 14. *Payments.* Checks have been issued as follows: Rogers Coal Co., Coal, 10 tons @ $12.00—$120.00; William Henderson, Painting, $175.00 (*charge "Building Repairs & Renewals" Account*); Alexander Jones, Carpenter, Work repairing floors, $68.50 (*charge "Building Repairs & Renewals*)."

§ 230. Building Repairs & Renewals Account is one which is opened to represent the cost of such repairs and renewals as are necessary to preserve the building to the extent of its normal duration. All current repairs of a small nature should be charged to this account and the account charged to revenue (Profit & Loss) at the end of the financial year. If the repairs are so extensive as to render further repairs for a period of years unnecessary, the cost of this account could be correctly spread over a number of years, but as each year is likely to bring along its share of renewals, it is usual to close the account out completely at the end of each year.

Nov. 14. A check for $165.00 has been issued for a properly certified statement of Travellers' Expenses which in future are to be paid by the firm, charging "Travelling Expenses."

Nov. 15. Checks issued: Withers & Co., Postage, $40.00 (Office, $30.00; Warehouse, $10.00); Salaries & Wages: Mr. Adams, $100.00; Mr. Gordon, $75.00; Travellers' Salaries, $540.00; Office Salaries, $175.00; Warehouse & Delivery salaries, $160.00.

Nov. 16. Petty Cash Payments: Telegram, 85c; Warehouse Expense, 85c; Office Supplies, 60c.

> Nov. 16. Have your work checked and post all items affecting personal accounts.
>
> Nov. 16. Mr. Adams has asked you to make a detailed statement showing the amount of cash which can be realised from Accounts Receivable during the balance of the present month, also a statement showing the Accounts Payable due, overdue, and falling due during the present month. Show also the excess of one over the other and considering the cash in bank, show whether or not there will be sufficient cash to meet maturing obligations. Have the statement certified by the teacher.
>
> You will notice that the accounts falling due during the balance of the month are greatly in excess of the available funds even though a number of your customers may take their discounts by making payments before the end of the month. It will, therefore, be necessary for Mr. Adams to arrange with his bank for a "Line of Credit" so that a sufficient amount of money can be borrowed from the bank to meet the immediate requirements of the firm.

Nov. 16. Mr. Adams has arranged for a Line of Credit of $16,000.00 to be secured by the firm's promissory notes, up to $8,000.00, and by discounted Trade Paper for the balance. Mr. Adams estimates that $6,000.00 will meet the present requirements of the firm. He has, therefore, issued a twenty day promissory note dated Nov. 16th for $3,000.00, and a one month note for a similar amount, each in favor of the College Bank. (*Write the notes.*)

Nov. 16. Discounted at the bank the promissory notes referred to above, getting credit for the proceeds.

> When these two notes have been placed in the bank for discount, the bank will give your firm credit for the proceeds, *i.e.*, the face value less the interest on the face value at 6% for the period each note has to run.

Figure the discount and make the necessary entries in the Cash Book. Do not enter these notes in the Bills Payable Book but in the Cash Book only, crediting "Bills Payable (Bank)". Read § 227 and 228, page 184. Read also § 208, page 152.

Nov. 18. *Receipts.* Checks from: Robt. Morrison for $8.45 for freight paid on his invoice of Nov. 9, including exchange 15c; a check from J. D. Russell for $10.35 for Express Prepaid on his invoice of Nov. 9, including exchange 15c.

Nov. 18. *Receipts.* C. E. Mann, Collingwood, check for invoice of Oct. 22. A. C. Graham, Winnipeg, Man., check in full for invoice of Oct. 2, $637.00.

NOTE.—Mr. Adams has advised you to give Mr. Graham credit for the amount remitted only. The cash discount cannot be allowed at this late date.

Deposit all Cash.

Nov. 18. Drew on Geo. R. Moore at sight for the balance due us. Left draft at bank for collection. (Draw the draft.)

Nov. 18. Mr. Adams has accepted the following drafts (all except sight drafts are drawn payable after date): Commercial Text Book Company, dated Nov. 12 at 10 days, $4,660 in favor of Bank of Montreal; Consumers Box Co., dated Nov. 13 at 30 days for $71.25 in favor of the Imperial Bank; Dominion Pencil Co., Montreal, dated Oct. 21 at 30 days in favor of Bank of Montreal for $8,422.00; Grand & Jones, dated Nov. 13 at 30 days in favor of the Imperial Bank for $43.00; W. J. Gray, dated Nov. 16 at sight for $45.00; Irish & Johnson, dated Nov. 17th at sight for $96.00.

Nov. 19. A Debit Slip has been received from the bank as follows: Exchange, Collingwood, $1.25; Winnipeg, 80c; Edmonton, 15c; Montreal, 15c. Total, $2.35.

Filled Orders:—

Nov. 21, 19 . Russell & Brown, Winnipeg, Man., via Express Collect. Terms. Check Enclosed, $795.76. 10 doz. Paste, Stafford's W.W.; 10 gro. Pencils, #21 HB.; 20 gro. Pencils, #21 B.; 20 gro. Penholders, Fingerfit; 10 gro. Penholders, Velvet. Total, $812.00. Less 2%, $16.24 = $795.76.

Nov. 21, 19 . Robt. Duncan, Hamilton, Ont., via G.T.R. Terms 60 days, 2% 30 days. 25 gro. Rulers, #136, 12"; 25 gro. Rulers, #137, 15"; Casing, $5.50.

Nov. 21, 19 . A. C. Graham, Winnipeg, Man., via C.P.R. Terms Net 60 days, 2% 30 days. 100 Arithmetic, New Method; 20 doz. Paste, Stafford's W.W.; 15 Cash Book #412, 500 pp; 10 gro. Rulers, #136, 12"; Casing, $4.25.

Nov. 21, 19 . A. R. King & Co., Victoria, B.C., via C.P.R. Terms Net 60 days, 2% 30 days. 100 Arithmetic, New Method; 10 Cash Book #412, 500 pp.; 10 doz. Inkstands #712; 10 Journal #412, 500 pp.; 50 gro. Penholders, Fingerfit; Casing, $6.00.

Nov. 21, 19 . W. A. Murray, Regina, Sask., via C.P.R. Terms Net 60 days, 2% 30 days. 50 Speller, Canadian Business; 25 gro. Ink, Commercial, 2 oz.; 10 Journal #412, 500 pp.; 10 Cash Book #412, 500 pp; Casing, $4.50.

Nov. 21, 19 . Peoples Stationery Co., Montreal, Que., via Can. Exp. C.O.D. less 2%. 25 Cash Book #412, 500 pp.; 125 Speller, Can. Business; 10 doz. Inkstands #712; Casing, $4.00. Total—$xxx.xx, less 2% ($xx.xx).

§ **231. Shipping by Express C.O.D.** When shipping by express C.O.D., the packages are entered in the Express Book in the usual way. An additional memo. "C.O.D." is entered after each such shipment. A C.O.D. Envelope with the necessary information typed or written thereon—enclosing an additional invoice of the goods shipped—is attached to the shipment. There is indicated on the back of the C.O.D. envelope the amount of the invoice which is the sum to be collected by the express company before the goods will be delivered to the purchaser. If it is the wish of the seller to have the purchaser pay the charges for express and collection, he indicates this by adding the word "and" on the back of the envelope, see illustration No. 162. When the amount has been collected by the express company, the goods are released and a remittance is made to the seller by Express Order or otherwise.

The seller may record the sale by opening a C.O.D. account in the ledger charging it with all such shipments and crediting it when remittances have been made, or he may follow the usual plan—which is a better method—of charging the customer with the goods shipped C.O.D. and giving him credit when the amount has been remitted by the express company.

Nov. 21. *Cash Sales:* 50 gro. Pens, Sprott's #1; 25 gro. Pens, Sprott's #2; 10 gro. Penholders, Fingerfit; 20 gro. Penholders, Velvet.

Nov. 21. Deposit all cash.

Have your work checked and post all items affecting personal accounts.

Nov. 21. Your Bank Pass Book appears as follows. Make any entries necessary.

THE COLLEGE BANK

In Account With ... . Adams & Gordon

DATE				DEPOSITS		CHECKS		CHECKS		CHECKS	
		Bal		7828	18	2	30	Fd. 13072	15	Fd.	
Nov	1	Dep	F	1872	34	20	—	120	—		
	2	Davis & B	R	327	59	45	—	165	—		
	3	King	R	379	52	42	16	40	—		
	6	Dep	F	2336	44	1160	—	75	—		
	9	Long	R	414	51	90	—	540	—		
	12	Dep	F	645	62	323	40	100	—		
	12	Long	R	1483	82	36	40	175	—		
	17	Discount	R	2988	66	2	59	160	—		
	17	"	R	2983	73	800	—	10	20		
	18	Dep	F	1659	57	4233	60	45	—		
	21	"	F	1305	76	14	60	2	35		
	21	Moore	R	1352	31	413	—	96	—		
						5880	—				
							80				
						8	30				

Illustration No. 160

Nov. 23. A Debit Slip has been received from the bank as follows: Exchange, Winnipeg, 99c.

Nov. 23. Received from the Peoples Stationery Co., your address, their promissory note, dated Nov. 22, for one month payable at their office, in our favor for the amount of their account, $36.40, to which they have added interest from Feb. 8th to Nov. 22nd at 7%. Face value of note, $38.40. The note bears interest at 7%.*

* NOTE.—This note will fall due on Dec. 25th, which is Christmas Day—a legal holiday—therefore the note would be legally due on the following day if the following day were not Sunday or proclaimed holiday. In connection with the computation of time on a bill of exchange or promissory note see § No. 181.

Charge the Peoples Stationery Co. with the interest through the Journal and credit them with the face value of the note through the Bill Book.

Nov. 24. *Receipts.* A Money Order has been received from the Canadian Express Company in payment of C.O.D. shipment to Peoples Stationery Co., of Montreal, $506.17. Received a check from G. R. Arnold for $690.90.

Nov. 24. Deposit all cash.

Nov. 24. Mr. Adams has drawn drafts dated Nov. 24 on customers as follows: C. R. Andrews, $1,969.50 at 14 days; Henry Bell, $721.50 at 24 days; Davis & Bell, $571.50

at 4 days; A. R. Dow, $883.00 at 4 days; Robert Duncan, $240.00 at 4 days; A. C. Graham. $720.00 at 14 days; A. R. King, $497.50 at 11 days; Geo. R. Miller, $607.00 at 14 days, These drafts have been left at the bank for collection. Write the drafts. (*See note Oct. 16.*)

Nov. 26. Yesterday being Sunday, your acceptance maturing on the 25th will fall due to-day. Mr. Adams had discounted the firm's note at one month for $2,000 to provide sufficient funds to meet maturing obligations. The bank charges 6%. (This is a Bank Bill Payable. Read § 228, page 184). *Write the note.*

Nov. 27. *Petty Cash Payments:* Charwoman, $1.50; Office Supplies, $3.00; Warehouse Supplies, $4.00; Telegram, $1.60.

Nov. 29. *Payments.* Travelling Expenses, $132.00; Salaries: Mr. Adams, $100.00; Mr. Gordon, $75.00; Travellers' Salaries, $540.00; Office Salaries, $175.00; Warehouse Salaries, $160.00.

Nov. 29. Cash Sales:—6 doz. Inkstands, **#712; 6 L.L. Binder, #415.**

Nov. 29. Deposit all cash.

Nov. 29. Issue a check for petty cash payments for the month.

Nov. 30. *Receipts.* A Check for $1,564.08 has been received too late for to-day's deposit from J. D. Russell, Montreal.

Nov. 30. Your Bank Pass Book appears as follows. Check it with your Cash Book and make the necessary entries for your matured bills.

THE COLLEGE BANK

In Account With .... *Adams & Gordon*

DATE				DEPOSITS		CHECKS		CHECKS		CHECKS	
		Bal		7828	18	2	30	Fd. 13072	15	Fd. 15301	69
Nov	1	Dep	F	1872	34	20	—	120	—	100	—
	2	Davis & B	R	327	59	45	—	165	—	8422	—
	3	King	R	379	52	42	16	40	—	175	—
	6	Dep	F	2336	44	1160	—	75	—	26	35
	9	Long	R	414	51	90	—	540	—	4660	—
	12	Dep	F	645	62	323	40	100	—	75	—
	12	Long	R	1483	82	36	40	175	—	28760	04
	17	Discount	R	2988	66	2	59	160	—		
	17	"	R	2983	73	800	—	10	20		
	18	Dep	F	1659	57	4233	60	45	—		
	21	"	F	1305	76	14	60	2	35		
	21	Moore	R	1352	31	413	—	96	—		
	24	Dep	F	1197	07	5880	—		99		
	24	Discount	R	1989	15		80	540	—		
	29	Dep	F	252	—	8	30	160	—	3256	23
				29016	27	13072	15	15301	69	29016	27

Illustration No. 161

Balance the Cash Book and make a Reconciliation Statement.

Make a Recapitulation of Sales. Foot the Bill Books and Purchase Journal. Have your work checked by your teacher.

Post as previously instructed.

Note also that "Freight & Express Prepaid & Charged" is a new account. It must be kept separate from the other Freight accounts, because it does not represent an expense but merely a temporary outlay for a customer, which is charged against him on his invoice and which when posted—since the total of the sales is posted

to the credit of Merchandise Sales—has increased the Merchandise Sales account incorrectly, because part of the Merchandise Sales Account now represents money advanced to customers. In order to adjust the Merchandise Sales Account the total of such advances to customers resulting from freight and express prepayments,—as shown by the "Freight & Express Prepaid and Charged Account,"—must at the end of the financial year be deducted from the Merchandise Sales Account in order that it may show the Merchandise Sales only.

Check the balance of your Bills Receivable and Bills Payable Accounts (Trade) with the bills owing to you and by you as shown in the Bills Receivable and Bills Payable books.

Balance the Bills Receivable, Bills Payable (Trade & Bank) and Cash Accounts. Make a trial balance.

EXAMINATION, SECTION 17.

1. Explain two methods of recording sight drafts drawn on customers.
2. If sight drafts are recorded in the Cash Book, when may the entries be made?
3. Define: (*a*) Interest; (*b*) Discount; (*c*) Line of Credit; (*d*) Trade Paper; (*e*) Letter of Hypothecation.
4. For what purpose is the draft usually used in present day business?
5. A draws a time draft on B in favor of A's bank and lodges it for collection. Explain the circuit or course of the draft from the time it is drawn until it is paid, and explain how A will receive the money for the draft, provided it has been duly honored.
6. Define Qualified Acceptance.
7. What is a Bill of Lading?
8. Name two kinds of Bills of Lading, and explain when each is used.
9. Explain a suitable method of recording in the ledger sundry small accounts receivable.
10. Define Goodwill. To what class of asset or liability does it belong?
11. Explain three methods of paying exchange on checks deposited.
12. What is an 80% Co-Insurance Clause?
13. What is the advantage to the insured in having such a clause in his policy?
14. Under what condition would the 80% Co-Insurance Clause be a disadvantage?
15. How would you know when a draft left for collection had been paid?
16. If a draft were drawn by you on a debtor and left at your bank for collection, would the bank notify you that it had been accepted? If not, how would you know whether or not it had been accepted?
17. Define a Promissory Note.
18. Are promissory notes used very extensively in business?
19. Describe the various methods of shipping by express.
20. What is the purpose of Building Repairs & Renewals Account? To what class of accounts does it belong?
21. In what account is recorded the cost of the use of money borrowed?
22. Define Days of Grace.
23. If the last day of grace falls on a legal holiday, when is the bill legally due?
24. On closing, how would you deal with Freight & Express prepaid by you for your customers and charged by you to their accounts by means of the regular invoices, if the total amount of such invoices had been posted to the Mdse. Sales Account at the end of each month during the financial year?

Section 18

CONTROLLING AND CONTROLLED ACCOUNTS.

§ 232. In your work up to this point, you have divided your ledger into three sections, General, Purchase and Sales. The individual sections have not balanced. The Trial Balance has been prepared by including in it all the results from the three divisions of your ledger. In an office in which a ledger is divided into sections, it is usual that the volume of business requires a ledgerkeeper for each section or each ledger The head bookkeeper or accountant usually takes charge of the General Ledger (*Impersonal Ledger*), while the Sales & Purchase Ledgers (*Personal Ledgers*) are placed in the charge of juniors. Under these conditions it is desirable that a Trial Balance can be taken from the General Ledger by the head bookkeeper independent of the other ledgers.

Under present conditions in your work, the Trial Balance would not be complete if the results of the Sales & Purchase Ledgers were not included. If then a Trial Balance is ever to be taken from the General Ledger alone, there must be inserted in it two accounts *which will in themselves show the summary of the records in the Sales and Purchase Ledgers.* If two accounts were opened in the General Ledger, one for "Accounts Receivable"—debited for the total accounts receivable as shown in the Sales Ledger, and another for Accounts Payable—credited for the total accounts payable as shown in the Purchase Ledger—then the General Ledger would in itself balance and would contain all the results required. It would show the total Accounts Receivable and total Accounts Payable, the details of which would be eliminated from the Trial Balance. These details would still be kept in the Sales Ledger and in the Purchase Ledger, but they would *not* form any part of the Trial Balance since the amounts in the Sales and Purchase Ledgers would necessarily be excluded when the Trial Balance is being taken. These two new accounts in the General Ledger are Group Accounts and show the results of a number of accounts kept in the Sales and Purchase Ledgers. The General Ledger is now a complete ledger, that is, one from which alone a Trial Balance may be taken. It is now called a *Principal* Ledger, while the Purchase and Sales Ledgers which still furnish the details of certain accounts in the Principal Ledger, are called *Subordinate* or *Subsidiary* Ledgers and do not in themselves balance.

The Group accounts in the General Ledger which represent the total of the details in any Subordinate Ledger are called "*Controlling Accounts*," and they usually take their name from the nature or name of the ledger which they represent. To illustrate: If the group account represented the aggregate of Accounts Receivable as shown individually in the Sales Ledger, it might properly be termed *Accounts Receivable Controlling Account, Sales Ledger Controlling Account* or *Customers' Ledger Controlling Account.* If the Sales Ledger were divided into several sections, such as Country Sales, City Sales, or otherwise subdivided, it would be quite in order to keep a Controlling or Group account in the General Ledger for each Subsidiary Ledger.

Again, if the Group in the General Ledger represented the aggregate of the Accounts Payable, as shown in detail in the Purchase Ledger, this Group Account might properly be termed *Accounts Payable Controlling Account* or *Purchase Ledger Controlling Account* or any other name which would properly represent the use for which the Controlling Account is intended. These controlling accounts are sometimes termed "Sales Ledger Adjustment Account" and "Purchase Ledger Adjustment Account."

As previously suggested, the Ledgers are so separated, in order that everything which requires the recording of a great amount of detail may be kept in subsidiary books which can conveniently be handled by less skilled clerks than the head bookkeeper or accountant who, in the General Ledger, gathers the results monthly from the books of Original entry from which he can easily establish the aggregate amount of Accounts Receivable or Payable, the details of which are shown later by the lists taken from the subsidiary ledgers.

In order to get a proper idea of the effect that the opening of controlling accounts in the General Ledger will have on the entries to be made, let us assume that our General Ledger is to be made a Principal book and will have in it a Controlling Accounts Receivable and a Controlling Accounts Payable and let us also assume that our Sales and Purchase Ledgers are kept as subsidiary ledgers containing only the details of the Accounts Receivable Account and Accounts Payable Account as they appear in the General Ledger. It will readily be noted by the student that a *three-cornered record* must now be made for each transaction which affects the Accounts Receivable or Accounts Payable. This might at first seem to vary from or be opposed to the principle involved in double entry bookkeeping, since for the simple transaction such as a credit sale to John Doe of $100 worth of goods, we are now required to make an entry as follows:—

Accounts Receivable, Dr. $100 (In General Ledger).

Mdse Sales, Cr. $100 (In General Ledger).

John Doe, Dr. $100 (In Sales Ledger).

Though at first sight it might seem otherwise, the principle of equal debits and credits in the ledger is still maintained even in the above example because *the Sales Ledger does not now enter into our Trial Balance since our Trial Balance is made up from numbers 1 and 2.* The posting of No. 3 to our Sales Ledger is merely in the nature of a memorandum involving no principle of any kind and similar in every respect to a memorandum in regard to that particular sale which you might make in a pocket notebook or on a slip of paper for reference only. The record posted to the Sales Book is intended solely as a memorandum which will enable the firm to render the account and to receive the proper payment. So far as the financial standing of the firm is concerned, it has no value but is intended merely to contribute to the gathering of facts which in the aggregate support or agree with the facts already recorded for balancing purposes in the General Ledger.

Illustration: Suppose on January 1st there is opened in the General Ledger (Principal Ledger) an Accounts Receivable Account (Controlling) the amount of which is $5,000. The General Ledger is in balance. The various customers' accounts which aggregate or amount to $5,000 are shown individually in a Sales Ledger (Subsidiary Ledger) which does not in itself balance and which does not affect and is not included in the Trial Balance of the General Ledger. During the month of January our customers make payments of $1,000 shown in our Cash Book. This amount must be posted to our Accounts Receivable Account and to our Cash Account in the General Ledger. The accounts would be affected as follows:—

Cash, Dr. $1,000/Accounts Receivable, Cr. $1,000. At the end of the month we find that our Recapitulation of Sales Sheet shows Credit Sales of $2,000. This item must be posted in the General Ledger to Accounts Receivable and to Merchandise Sales and would affect these accounts as follows:—

Accounts Receivable, Dr. $2,000/Mdse. Sales, Cr. $2,000. When these items have been posted the General Ledger will still be in balance and an examination of our Accounts Receivable Controlling Account in the General Ledger will show the following:—

¶ 1. A Debit Balance of $5,000.

¶ 2. A Debit Posting of $2,000.

¶ 3. A Credit Posting of $1,000.

These figures will produce a Debit Balance on Jan. 31st of $6,000. This is the total Accounts Receivable and the amount which would appear in our General Ledger Trial Balance. The details of these transactions have not been entered in the General Ledger, but they must be recorded by the Sales Ledgerkeeper in the individual accounts in the Sales Ledger which when completed at the end of the month, if correct, must show individual balances in our favor from customers aggregating $6,000. The Sales Ledgerkeeper, in order to know whether or not his books are correct, would go to the head bookkeeper for this figure. If his summary of the accounts in our favor as shown by his Sales Ledger agrees with the figure given him by the head bookkeeper, $6,000 as shown by the Controlling Accounts Receivable, then his posting must have been correct. His Sales Ledger does

not balance because he keeps details only, but the aggregate of his accounts must agree with the Accounts Receivable Controlling Account which appears in the General Ledger. He does not balance his Subsidiary Sales Ledger, *but simply proves it with the Controlling Account in the General Ledger.*

The same conditions are true in regard to the proving of the Purchase Ledger. The aggregate of the individual balances in the Purchase Ledger shows the sum owing by us to our creditors and must agree with the Accounts Payable Controlling Account in the General Ledger. The Purchase Ledgerkeeper will prove his figure at the end of the month by applying to the head bookkeeper or accountant for his proving figure which would be the balance of the Accounts Payable Controlling Account in the General Ledger.

§ 233. **Self-Balancing Ledgers.** When the nature of a business requires the keeping of Principal and Subordinate Ledgers, the Principal Ledger is always complete or self-balancing, while the Subordinate or Subsidiary Ledgers are usually incomplete, that is, they do not balance in themselves. They are books of analysis and reflect or show the details of certain accounts in the Principal Ledger.

C.O.D.

DOMINION EXPRESS COMPANY
ISSUES
MONEY ORDERS
FOREIGN CHEQUES
AND
TRAVELERS' CHEQUES
AT LOW RATES

Charge for Return of Proceeds when Money Orders are used.

$5.00 and under			15c
Over $5.00	to	$10.00	20c
" 10.00	"	30.00	25c
" 30.00	"	50.00	30c
" 50.00	"	75.00	40c
" 75.00	"	100.00	50c
" 100.00	"	130.00	60c
" 130.00	"	160.00	70c
" 160.00	"	200.00	80c

For amounts over $200.00 cash will be returned.

Currency must be forwarded only in envelope form 152

POSTMASTER:
Forward to address shown below; if not delivered in 5 days return to Auditor of Money Orders, Dominion Express Co., Toronto, Canada.

STAMP HERE

WRITE SHIPPER'S NAME AND ADDRESS PLAINLY

Name Messrs. Adams & Gordon,

Street and No. 427 Canada St.,

Place (Student's Address)

Province

No. FOR GOODS SHIPPED TO

Form 151
Revised April 1920

C. O. D. Messrs. W. A. Murray, Ltd.

Bill Enclosed Regina, Sask.

$48.25 Amount of Bill &

DOMINION EXPRESS COMPANY

$ Charges for Collection and return of Proceeds.

Unless instructions to the contrary are written by shipper on package and also on C. O. D. envelope, charge for collection and return of proceeds will be collected from consignee.

INSTRUCTIONS: Unless otherwise instructed by shipper, a C.O.D. package must not be opened or delivered until invoice is paid. A C.O.D. package must not be forwarded beyond original destination unless by special instructions from agent at shipping office.

If C. O. D. matter is refused or cannot be delivered within 48 hours, notify shipper at once (Form 186) and if not disposed of within 30 days after such notice it may be returned to shipper subject to conditions of receipt issued for the shipment and collection of charges both ways, unless shipper requests further time. Under no circumstances must it be held longer than 60 days. Perishable property, if refused by consignee, must, in the absence of instructions, be sold immediately to best advantage, for account of owners.

Shippers' Instructions on C. O. D. Package, Envelope, or Invoice Must be Strictly Complied With.

Unless directed to remit cash, Agents must issue Money Orders in payment of C. O. D.'s of amounts of $200 or less, and send direct to shipper by Post Office mail, using this envelope. Shipper's name and address on reverse side.

Goods waybilled from

Date 192... Via

SHIPPER'S INSTRUCTIONS.

Shipper will attach this envelope securely to shipment.
Destination Agent must detach this envelope from shipment on arrival and enter particulars in C. O. D. register.

Illustration No. 162 Express C.O.D. Envelope

§ **234. A Subordinate Ledger May be Made Self-Balancing** by the introduction into it of another Group Account exactly similar to the Group Account in the General Ledger but having the results recorded on the opposite side. If this is done, the Subsidiary Ledgerkeeper can prove the accuracy of his own ledger without reporting his total to the head bookkeeper for verification.

The introduction of such a Group Account into a Subsidiary Ledger is now quite unusual and is mentioned here so that the student may become familiar with this condition. As the incorporation of Subsidiary Group Accounts into the Subsidiary Ledger would at this point tend to confuse the junior student, they will not be introduced but are merely referred to so that the pupil may know that such accounts exist. In fact, the use of these Group Accounts in a Subsidiary Ledger is not only unnecessary but undesirable and is being rapidly discontinued. A Subsidiary Ledger is now usually not a self-balancing ledger, but merely shows the details of records, the accuracy of whch is proved by a comparison of the totals with its controlling account.

TRANSACTIONS FOR MONTH OF DECEMBER.

Books. The student will use the same books as were used in the previous month.

Treatment of Sight Drafts. In the month of October, sight drafts drawn on customers were entered on a deposit slip and deposited as cash (discounted). In the Cash Book, they were treated as checks received. In the month of November, sight drafts drawn were left at the bank for collection, no record being made in the Cash Book until the draft was reported paid. In this month a third method of recording sight drafts drawn on customers will be introduced. As explained on page 150, a short term time draft may be paid before a sight draft drawn on the same date on a distant point. There can therefore be no reasonable excuse for not recording a sight draft in exactly the same manner as a time draft, *i.e.*, by crediting the customer when the draft is drawn, recording the draft *in the Bills Receivable Book* and at all times treating it as a Bill Receivable. This is the method which the student will adopt during the month of December.

Treatment of Time Drafts. Time drafts will be discounted to provide funds according to line of credit; see page 163 § 6. Drafts will be left for collection when additional funds are not required.

Controlling Accounts. During the month of December, a Controlling Account to represent the aggregate of the Accounts Receivable will be kept in the General Ledger. This controlling account will be called Accounts Receivable Controlling. The individual balances, which make up the total Accounts Receivable, will be kept as usual in the Sales Ledger, the results of which will *not* in future be included in the trial balance. The Sales Ledger will now be used as a Subsidiary Ledger *not* self-balancing.

In the same manner, an Accounts Payable Controlling Account will be opened in the General Ledger to represent the Purchase Ledger accounts. The General Ledger will now be a Principal Ledger, self-balancing. The Purchase and Sales Ledgers will be Subsidiary Ledgers *not* balancing, but showing the details of their respective control accounts.

> Dec. 1. Open a Controlling Account in the General Ledger for Accounts Receivable. Debit it with the total Accounts Receivable as shown on the last trial balance. Open a controlling account in the General Ledger for Accounts Payable, crediting it with the total Accounts Payable as shown on the last trial balance. Your Purchase and Sales Ledgers do not balance, they simply show the details of their respective control accounts.

Dec. 1. Cash Sales:—20 Arithmetic, New Method; 5 Cash Book, #412, 500 pp.; 10 gro. Erasers, P. & P.; 5 gro. Erasers, Type.

Dec. 1. Deposit all cash.

Dec. 3. Accepted Lufkin Rule Co.'s sight draft for $2,001.25.

Accepted a sight draft drawn by Stafford Ink Company for $1,000.

Dec. 4. Your Bank Pass Book appears as illustrated on page 200. Make entries.

THE COLLEGE BANK

In Account With .... Adams & Gordon

DATE				DEPOSITS		CHECKS		CHECKS		CHECKS	
19-		Bal		256	23	68	50				
Dec	1	Deposit	J	1750	58	2001	25				
"	3	Duncan	R	239	70	175	—				
"	4	Dow	R	881	90	1000	—				
						132	—				

Illustration No. 163

Dec. 4. Drew on the following customers and discounted each draft to provide funds to meet maturing obligations. The bank charges 6%; collection 1/8 of 1%:—G. R. Arnold for \$885.00 at 24 days; Robt. Brown for \$686.00 at 24 days; Davis & Bell for \$601.50 at 15 days. (*Write the Drafts.*)

> Make the record of these drafts in the usual way in the Bills Rec. Book. Make the entry for the cash received from the proceeds in the Cash Book, debiting Interest & Coll. & Exchange for costs and Crediting Bills Rec. for face value of Bills.

§ 235. **Contingent Liability.** When a draft has been drawn on a customer it is presumed that it will be accepted and paid at maturity. On this assumption banks accept trade bills as security against loans made to its clients. In the ordinary course of book-keeping, the customer is credited when the draft is drawn and Bills Receivable is debited on the assumption that the draft will be accepted and paid at maturity. If the bill is discounted, the usual entry is—Cash, Dr., Interest & Discount, Dr./Bills Receivable, Cr.

When the draft is discounted, it requires an endorsement, which is in effect a guarantee to the bank that the drawer will repay the bank the face value of the bill if it is dishonored by the drawee at maturity. This endorsement creates a liability to the bank which may or may not come into definite existence. It is a liability "contingent" upon the dishonor of the paper and is therefore called a "Contingent Liability." In order to show such a contingent liability in the books, some accountants when discounting bills prefer to credit "Bills Discounted" account instead of Bills Receivable,—allowing the Bills Receivable to stand as an asset, even though disposed of—and to offset this asset by a Contingent Liability in the form of the account just opened "Bills Discounted." When the bill is paid, then "Bills Discounted" account would be debited and Bills Receivable credited. If this plan of showing Contingent Liability is *not* followed, the amount of the Contingent Liability resulting from bills so endorsed when discounted should be shown on a balance sheet *as a foot note* only. Other Contingent Liabilities are dealt with later in your work.

A Debit Slip has been received from the bank as follows: "We have debited your account as follows:—Exchange, Dec. 1, Montreal, \$1.96; Davis & Bell's Acceptance returned unpaid, 10c.

> The usual bank charge for returned drafts is 10c.
>
> Make the entry in the Cash Book. It will be necessary for you to make a memo. in the Bills Receivable Book in the Remarks column opposite this bill " Returned Unpaid." It will also be necessary for you to charge "Accounts Receivable" with the face of the returned acceptance and to credit Bills Receivable with the same amount.
>
> As there is no element of Cash in the transaction, and as there is no provision made in the Bill Book for entries when notes or drafts are returned unpaid (except for renewals), the only place in which to make the necessary adjustment is in the Journal. The return of this bill decreases the asset which is shown by the Bills Receivable Account in the General Ledger and increases the asset shown by the Accounts Receivable Account in the General Ledger so that if the Sales Ledger were not to be considered, the journal entry would be: Accounts

Receivable, Dr. (General Ledger), $571.50/Bills Receivable, Cr. (General Ledger), $571.50. This entry would adjust the General Ledger so that the asset will appear in the proper account. But the Sales Ledger must also be considered, because it must show the detail of the Accounts Receivable (control) Account, and if that account is altered in any way, the details also as they appear in the Sales Ledger must be altered. To make the details in the Sales Ledger agree with the Controlling Accounts Receivable in the General Ledger, the following entry must be made in the Sales Ledger—Davis & Bell, Dr. $571.50. These two entries when combined will form the proper journal entry which should appear as follows:—Accounts Receivable, Dr. (General Ledger), $571.50; Davis & Bell, Dr. (Sales Ledger), $571.50/Bills Receivable, Cr. (General Ledger), $571.50. The first and last items would be posted to the General Ledger, thus the equilibrium of that ledger would be maintained. The second item of the entry should be posted to the Sales Ledger which is not included in the trial balance, but shows only the detail of the control account. It must be kept clearly in mind that whenever the Accounts Receivable is either debited or credited, the detail account in the Subsidiary Ledger must also be debited or credited to the same extent. Read Controlling Accounts, page 196.

Filled Orders:—

Dec. 8, 19 . Russell & Brown, Winnipeg, Man., via Express Prepaid & Charged. Terms Net 60 days, 2% 30 days. 10 gro. Ink, Stafford's Carmine @ $25.00 - 20%. Express Prepaid—$12.00.

Dec. 8, 19 . Geo. R. Moore, St. John, N.B., via C.P.R. Terms Net 60 days, 2% 30 days. 10 doz. Inkstands, #712; 10 Journals, #412, 500 pp; 5 L.L. Binders, #415. Casing, $4.00.

Dec. 8, 19 . Geo. Miller, Stratford, Ont., via G.T.R. Terms Net 60 days, 2% 30 days. 50M. Paper Fasteners, S1; 75M. Paper Fasteners, S2; 100 doz. Paste, Stafford's W.W.; 75 gro. Pencils, #21 HB. Casing, $6.00.

Dec. 8, 19 . C. E. Mann, Collingwood, Ont., via G.T.R. Terms Net 60 days, 2% 30 days. 100 gro. Pencils, #21 B.; 50 gro. Penholders, Fingerfit; 100 gro. Penholders, Velvet. Casing, $8.50.

Dec. 8, 19 . James Long, your address, via Del. Terms 2% Sight Draft. 200 gro. Pens, Sprott's No. 1; 400 gro. Pens, Sprott's No. 2; 600 gro. Pens, Sprott's No. 3; 500 gro. Pens, Sprott's No. 10.

Draw the draft and enter it in the Bill Book. Leave it at the Bank for collection.

Dec. 8. Russell & Brown have written stating that they will be unable to meet their acceptance due on Dec. 8th, and have enclosed their note dated Dec. 8 at one month with interest at 7% for $1,517.00 in favor of Adams & Gordon payable at the Bank of Montreal, Winnipeg.

Mark the dishonored acceptance "Renewed" in the Bill Book. Make a record of the note received in the Bill Book. Enter the face, $1,517.00, in the "Bills Rec." column. Do *not* credit any personal account nor make any entry in the Accounts Receivable column. In the "Other Accounts Cr." section of the Bill Book credit "Bills Receivable" and enter the amount of the "face" in the money column. The effect of this entry is simply both a debit and a credit entry for Bills Receivable. An optional method would be to charge Russell & Brown with the returned acceptance in the General Journal and Credit them with the renewal in the Bill Book.

Dec. 8. Leave Russell & Brown's renewal at the bank for Collection.

Certified Invoices Received:—

Dec. 9, 19 . Automobile Supply Co. Terms 30 days. Gasoline and Oil, $25.00.

Dec. 8, 19 . Patterson & Co., your address, via Del. Terms 30 days, 2% 10 days. 25 Cash Book, #412, 500 pp. @ $3.00—$75.00; 25 Journal, #412, 500 pp. @ $3.00—$75.00. Total—$150.00. (O.K.'d conditionally.)

Dec. 8, 19 . Grand & Jones, your address. Terms 30 days, 2% 10 days. 2 Rms. Kraft Wrapping Paper @ $12.00—$24.00; 1 Keg Nails, 2", $16.00; 1 Can Marking Ink, $4.00. Total—$44.00.

Dec. 9, 19 . W. J. Gray, your address. Terms Net 30 days. 1M. Advertising Booklets, $40.00; 2M. Letterheads, Printed. $12.00; 2M. Envelopes, Printed, $8.00. Total, $60.00.

Dec. 9, 19 . Petty Expenses: Window Cleaning, $3.00; Delivery, $4.00; Office Supplies, $2.50; Telegram, 60c.

Dec. 10. Mr. Adams has instructed you to issue a Credit Note to W. A. Murray for goods damaged in casing, $4.50.

Dec. 10. Mr. Adams' claim against Patterson & Co. for inferior quality of paper in last goods purchased has been allowed. They have given Adams & Gordon a Credit Note for $4.50 on invoice Dec. 8th.

Dec. 10. Paid by check a bill presented by the Canadian Express Company for express on goods shipped to Russell & Brown, $12.00. (Remember that this is for express prepaid and *Charged.*)

Dec. 10. Mr. Adams has renewed the firm's note due to-day for one month, discounting the renewal and receiving credit at the bank for the proceeds. The bank charges 6%. Discount, $16.77.

> Make the entries in this order: 1st, Make the entry on the Paid side of the Cash Book showing that the bill which has matured has been charged against your account at the bank. 2nd, Make a record on the Received side of the Cash Book for the Cash received as a result of discounting the renewal, debiting "interest" and crediting "Bills Payable (Bank)."

Dec. 11. A Debit Slip has been received from the College Bank as follows: We have to-day charged your account with collection 10c on Russell & Brown's Acceptance due Dec. 8th returned unpaid.

Dec. 12. *Payments.* Automobile Supply Co., $1,825; Canadian Typewriter Co., * $15.68; W. J. Gray, $89.80.

Dec. 12. Your Bank Pass Book appears as follows. Make the necessary entries.

THE COLLEGE BANK

In Account With Adams & Gordon

DATE				DEPOSITS		CHECKS		CHECKS		CHECKS	
19–		Bal		256	23	68	50				
Dec	1	Deposit	F	1750	58	2001	25				
"	3	Duncan	R	239	70	175	—				
"	4	Dow	R	881	90	1000	—				
"	4	Discount	R	2161	03	132	—				
"	10	King	R	496	88	2	06				
"	10	Discount	R	2983	23	3000	—				
"	12	Long	R	2662	27		10				

Illustration No. 164

Note that the proceeds of the three bills discounted on Dec. 4th is entered in the Bank Pass Book as one sum. Note also that when drafts have been collected and the proceeds credited the name of the drawee is written in the pass book, but when drafts are discounted the word "Discount" is entered.

Dec. 14. *Receipts.* A. C. Graham, check, $603.44; W. A. Murray, check, $519.40.

> Dec. 14. Deposit all cash. Have your work checked and post to Subsidiary Ledgers only.

Dec. 14. Mr. Adams has received notification from The Peoples Stationery Company of Montreal that they are drawing on Adams & Gordon for accommodation for $500.00.

* NOTE.—On December 13th we received a letter from the Canadian Typewriter Company advising us of a shortage of 32 cents in our cheque issued December 12th in payment of their invoice of November 13th on which the discount date had long since expired. They have stated that since the amount of the discount is so small, they will allow it rather than cause us the inconvenience of making additional entries in our books. Write a letter thanking them for their kindness.

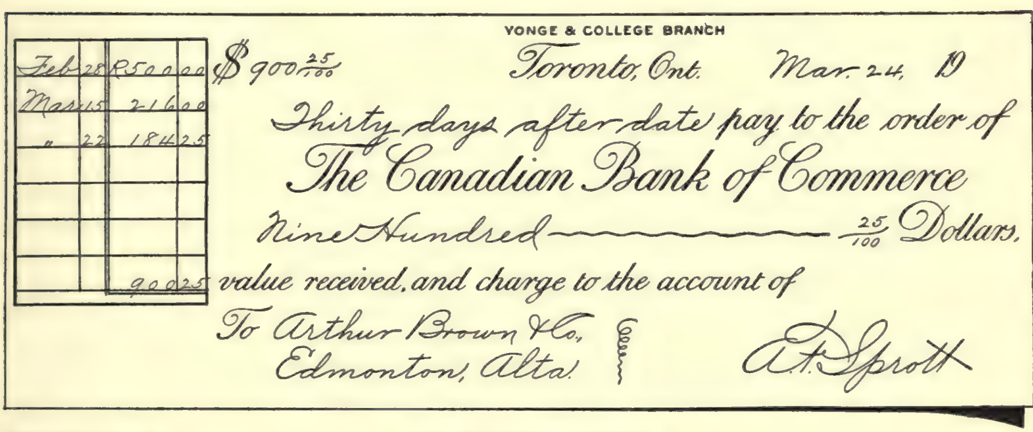
They have requested Adams & Gordon to draw on them for a similar amount. Mr. Adams has returned the draft unaccepted and has not drawn on them as requested.

Bills such as that drawn by The Peoples Stationery Co. are called "*Accommodation Bills*" (familiarly known as Kites). Those who engage in the unpopular practice of drawing such Bills are said to be "*Kite Flying*" or "*Flying Kites.*"

These bills are merely expedients for improperly obtaining loans and are drawn for the accommodation of one of the parties and sometimes of both and do not represent any genuine "value received." They are drawn solely for the purpose of being discounted by one or both of the parties who lend their names to such an unbusinesslike practice in order to obtain the use of the proceeds of the bills.

Bills on which the honest trader secures credit are expected to be those drawn as the result of genuine sales and it is not infrequent to see listed on a draft the details or summary of the transactions which give rise to the bill. (See illustration No. 165.) Such a draft is somewhat similar to that frequently used in the United States, called a "Trade Acceptance," on which is written a statement indicating that the obligation of the acceptor arises out of the purchase of goods from the drawer. See illustration No. 151.

Neither Canadian nor English Customs nor the Canadian Bills of Exchange Act recognize the term "Trade Acceptance."



Feb.	28	$500.00
Mar.	15	216.00
"	22	184.25
		900.25

YONGE & COLLEGE BRANCH

$900 25/100 Toronto, Ont. Mar. 24, 19

Thirty days after date pay to the order of

The Canadian Bank of Commerce

Nine Hundred ——— 25/100 Dollars,

value received, and charge to the account of

To Arthur Brown & Co., Edmonton, Alta.

A. T. Sprott

Illustration No. 165 **Draft with Statement attached**

Dec. 15. Payments of Salaries & Expenses: Geo. Adams, $100.00; Henry Gordon, $75.00; Travellers' Salaries, $540.00; Office Salaries, $175.00; Warehouse Salaries, $160.00; Travelling Expenses, $182.00.

Dec. 15. A Debit Slip has been received from the Bank as follows: C. R. Andrews' acceptance returned unpaid, 10c; Exchange: Winnipeg, 75c; Regina, 65c.

Dec. 16. Your Bank Pass Book appears as illustrated on page 204. Check it with your Cash Book and deal with any unchecked items.

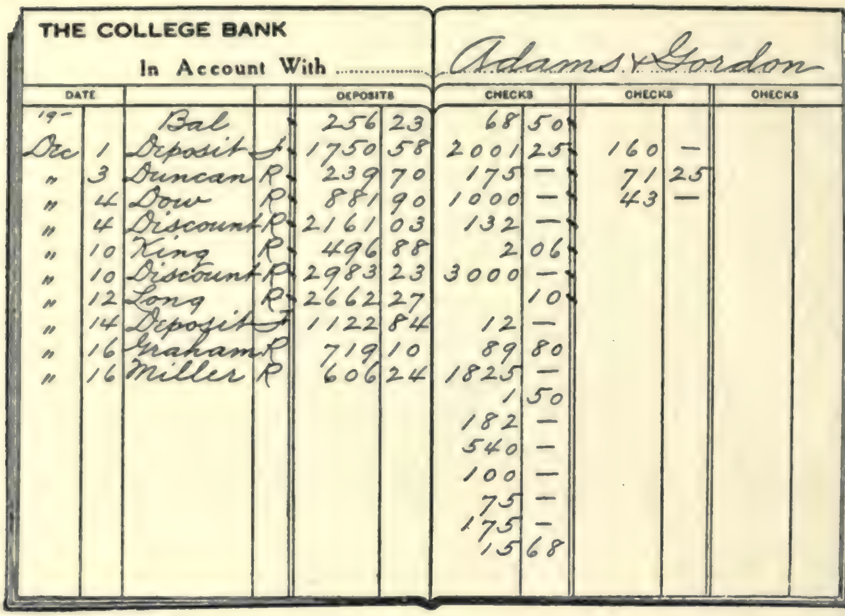
Dec. 17. Petty Expenses: Charwoman, $1.50; Telegram, $2.25; Warehouse Supplies, 60c; Office Pins, 65c; Carfare for Delivery, $3.00.

Dec. 18. Cash Sales: 10 Spellers, Canadian Business; 2 gro. Rulers, 15", #137; 1 gro. Rulers, 12", #136.

Dec. 18. *Receipts.* Robt. Duncan, check, $2,780.39; A. R. King, check, $2,597.53.

Dec. 18. Deposit all cash.

Dec. 18. *Payments.* Lufkin Rule Co., $2,802.00; Patterson & Co., check, $1,482.59; Grand & Jones, check, $43.12; Commercial Text Book Company, $961.25; Automobile Supply Company, $74.40.



THE COLLEGE BANK

In Account With .... Adams & Gordon

DATE				DEPOSITS		CHECKS		CHECKS		CHECKS	
19–		Bal		256	23	68	50				
Dec	1	Deposit	J	1750	58	2001	25	160	—		
"	3	Duncan	R	239	70	175	—	71	25		
"	4	Dow	R	881	90	1000	—	43	—		
"	4	Discount	R	2161	03	132	—				
"	10	King	R	496	88	2	06				
"	10	Discount	R	2983	23	3000	—				
"	12	Long	R	2662	27		10				
"	14	Deposit	J	1122	84	12	—				
"	16	Graham	R	719	10	89	80				
"	16	Miller	R	606	24	1825	—				
						1	50				
						182	—				
						540	—				
						100	—				
						75	—				
						175	—				
						15	68				

Illustration No. 166

Dec. 19. Bank Debit Slip received:—Exchange: Hamilton, \$3.48; Victoria, \$3.25. Total—\$6.73.

Dec. 19. Received from C. R. Andrews their note at one month dated Dec. 11th, payable at the Imperial Bank, Ottawa, for the amount of their dishonored acceptance to which they have added on the face of the note interest @ 7% from Dec. 11th to maturity. Interest, \$12.38; Face, \$1,981.88.

> When a note is received for the amount owing by a customer together with interest, there are various ways of making the record. The interest may be recorded in the interest column of the Bill Book, if such a column is used, and from that column posted as a total to Interest Account. Another method is to charge the customer with the interest through the Journal and give him credit for the face value of the note received. In this transaction, follow the latter plan.

Dec. 20. Calculate interest at 6% on the overdue portion of Davis & Bell's account from Dec. 1st to Dec. 20th. Charge them with that amount and draw at sight for the amount overdue. Interest, \$1.79; Face, \$571.50—\$573.29.

Dec. 20. Left Andrews' Note and Draft drawn on Davis & Bell at College Bank for collection.

> Dec. 20. Examine your Bills Payable Book for maturing trade bills, and make entries accordingly.

Filled Orders:—

Dec. 20, 19 . A. R. Dow, Brandon, Man., via C.P.R. Terms Net 60 days, 2% 30 days. 50 Arithmetic, New Method; 15 Cash Book, #412, 500 pp.; 10 gro. Erasers, P. & P.; 15 gro. Erasers, Type.; Casing, \$3.00.

Dec. 20, 19 . Davis & Bell, Halifax, N.S., via C.P.R. Terms Net 60 days, 2% 30 days. 15 doz. Inkstands, #712; 20 Journals, #412, 500 pp.; 20 doz. Paste, Stafford's W.W.; Casing, \$3.50.

Dec. 20, 19 . Henry Bell & Co., Calgary, Alta., via C.P.R. Terms Net 60 days, 2% 30 days. 10 gro. Rulers, 12", #136; 12 gro. Rulers, 15", #137; 100 Spellers, Canadian Business; Casing, \$4.00.

NOTE. The student should notice the three different types of entries in his bank pass book on the "Deposits" side. 1st, Deposits; 2nd, Discounts; 3rd, Collections. The collections are designated by the name of the drawee.

Dec. 20, 19 . C. R. Andrews, Ottawa, Ont., via C.N.R. Terms 60 days, 2% 30 days. 75 gro. Penholders, Fingerfit; 50 gro. Penholders, Velvet; 50 gro. Pens, Sprott's #1; 100 gro. Pens, Sprott's #2; Casing, $5.00. Total

Dec. 22. *Certified Invoices:—*

Dec. 21, 19 . Canadian Importing Co., your address, terms 30 days, 2% 10 days. 100 gro. Pencils, #21 HB. @ $8.00—$800.00.

Dec. 20, 19 . Commercial Text Book Company, 383 Church St., Toronto. 200 Arithmetic, New Method, @ $1.92—$384.00; 500 gro. Pens, Sprott's #2, @ $1.10—$550.00; 500 Spellers, Can. Business, @ 64c—$320.00; Casing, $5.00. Total—$1,259.00 (Paid Freight, $1.75, out of Petty Cash.)

Dec. 20, 19 . Dominion Pencil Co., 29 St. Urbain St., Montreal, Que. 200 gro. Penholders, Fingerfit, @ $10.00—$2,000.00; Casing, $6.00. Total—$2,006.00. (Pay freight, $12.50, by check.)

Dec. 22, 19 . Patterson & Co., your address. 25 Cash Book #412, 500 pp., @ $3.00—$75.00; 25 L.L. Binders, #415, @ $8.00—$200.00. Total—$275.00.

Dec. 21, 19 . Stafford Ink Co., your address. 50 gro. Ink, Carmine, 2 oz., @ $15.00—$750.00.

Dec. 22. *Receipts.* C. R. Andrews, $614.50; W. K. Wright, $1,150.50.

Dec. 22. Deposit all cash.

Dec. 22. As the bank balance is now larger than is necessary to meet maturing obligations, Mr. Adams has retired the firm's note, due Dec. 27th, in favor of the bank by requesting the bank to charge the note to the firm's account and to give credit for the interest rebate.

> As this note, which is being paid by your firm to-day, will not be due until Dec. 27th, and since the note has been discounted and your firm has been charged with interest on the note until Dec. 27th, it will be necessary for the bank to refund the amount charged for the use of the money from the present date, Dec. 22 to Dec. 27 (5 days). They will do this by giving your account credit for this interest, which when so returned is called a *Rebate.* The payment of a bill before it is legally due is styled ***Taking up a Bill Under Rebate.***
>
> Make the necessary entries.

Dec. 23. Drew on the following customers at sight, and left the drafts at the bank for collection: A. R. Dow, $1,059.00; John Holt, $1,354.50. Write the drafts.

Dec. 23. Dank Debit Slip received: Exchange, Ottawa, 77c; Vancouver, $1.44. Total, $2.21.

Dec. 24. Accepted the following drafts:—Drawn by Automobile Supply Co., dated Dec. 22nd at 14 days, in favor of the Bank of Toronto, $25.00; Drawn by W. J. Gray, dated Dec. 22nd at 14 days, in favor of the Bank of Commerce for $60.00.

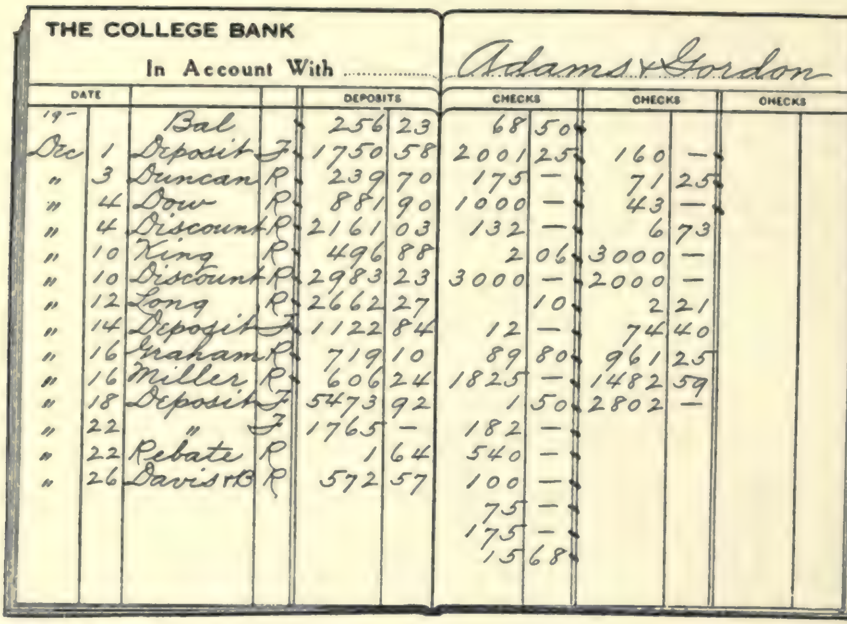
Dec. 26. Your Bank Pass Book appears as illustrated on page 206. Check it and make any entries that are necessary.

Dec. 28. Received from the bank a telephone message advising that Henry Bell has remitted to them, attached to his acceptance due on Dec. 21st which has been returned unpaid, a check in their favor for $500. They requested Mr. Adams to advise whether or not this amount is to be accepted by them. Mr. Adams has advised the bank to accept the check. The bank will charge one-eighth of 1% collection, 63c. Read § 169.

> Charge Bell through the Journal with the return of the acceptance and give him credit through the Cash Book for the amount remitted.

Dec. 28. A Debit Slip has been received from the bank as follows:—We have debited your account with collection charges 10c on Peoples Stationery Co.'s acceptance returned unpaid.

> Make the necessary entries.


THE COLLEGE BANK

In Account With Adams & Gordon

DATE				DEPOSITS		CHECKS		CHECKS		CHECKS	
19—		Bal		256	23	68	50				
Dec	1	Deposit	F	1750	58	2001	25	160	—		
"	3	Duncan	R	239	70	175	—	71	25		
"	4	Dow	R	881	90	1000	—	43	—		
"	4	Discount	R	2161	03	132	—	6	73		
"	10	King	R	496	88	2	06	3000	—		
"	10	Discount	R	2983	23	3000	—	2000	—		
"	12	Long	R	2662	27		10	2	21		
"	14	Deposit	F	1122	84	12	—	74	40		
"	16	Graham	R	719	10	89	80	961	25		
"	16	Miller	R	606	24	1825	—	1482	59		
"	18	Deposit	F	5473	92	1	50	2802	—		
"	22	"	F	1765	—	182	—				
"	22	Rebate	R	1	64	540	—				
"	26	Davis & B	R	572	57	100	—				
						75	—				
						175	—				
						15	68				

Illustration No. 167

Dec. 28. Have your work checked and post to Subsidiary Ledgers.

Dec. 30. *Payments.* Salaries: George Adams, $100.00; Henry Gordon, $75.00; Travellers' Salaries, $560.00 (this check includes $20.00 paid to Mr. D. A. Newell in advance on next month's salary); Office Salaries, $175.00; Warehouse Salaries, $160.00; Travelling Expenses, $161.50.

Dec. 30. Paid F. A. Thompson (Customs House Broker) bill for duty and brokerage on invoice of goods coming from G. Spaulding & Co., Liverpool, England. (Charge Duty & Brokerage.) The Brokerage is 75c.

The duty is 15% of the value of the invoice when converted into Canadian currency at $4.86 2/3. The percentage of duty is always figured on an even amount of dollars. Cents are dropped if under fifty, and if over fifty a sufficient amount is added to make the even dollars, *e.g.*, on an invoice of $1,426.15 the percentage would be calculated on $1,426, while if the invoice were $1,426.65 the percentage would be calculated on $1,427.

Duty, $754.05; Brokerage, 75c =$754.80.

Dec. 30. *Certified Invoices Received:—*

G. Spaulding & Co., Liverpool, England. Nov. 1, 19 . Terms 60 days Net. 500 rms. Silver Stream White Wove Paper, 17 x 22, 20 lbs. to ream, @ 1s 2d per lb., £583 6s 8d; 300 rms. Silver Stream White Wove Paper, 17 x 28, 24 lbs. to ream, @ 1s 2d—£420. Casing, £29 12s. Total—£1,032 18s 8d. (Freight, $468.00, paid by Check.)

> Goods purchased from abroad (beyond the boundaries of Canada) are usually subject to tax levied by the government called "*Customs Duty.*" The taxes on certain articles produced or manufactured and consumed in Canada and the charges for licenses to deal in or use certain articles or to carry on certain trades or professions are termed "*Excise.*" These taxes are levied by the government as a means of revenue for the country. The place appointed by the government for the purposes of imposing and collecting these duties is called a *Customs House.*

The list or schedule prepared by the government indicating the articles on which duty is levied and the rates charged is called the "*Tariff.*" The tariff on importations may be a charge of a fixed percentage on the *value* of the articles imported, it may be a definite sum per unit, or it may be both. The former is called an "ad valorem" duty, the latter a "specific" duty. Classified and alphabetical tariff lists are published in the *Canadian Almanac, Heaton's Annual* and various other publications.

When goods arrive from abroad (outside Canada) they are held "In Bond" by the customs authorities until the owner makes a clearing entry, pays the duty if the goods are dutiable, or files the necessary papers and declaration, if the goods are on the free list. The process of adjusting and paying the duty or of providing the proper officials with the necessary information which will make it possible for the owner to gain possession of the goods is in business termed "passing" the goods. Certain lines of dutiable goods which are imported in advance of the purchaser's requirements may be stored in a depot approved of by the government called a *bonded warehouse,* until the owner decides to pay the required duty and releases the goods.

Business houses importing extensively usually employ a clerk whose sole duty is to look after and pass all dutiable goods. Those who receive only occasional shipments from abroad, owing to the necessary time which is wasted in standing in line at various wickets in the Customs House, find it more economical to have their goods passed by a Customs House Broker, who for a small fee will pass the goods and thereby save the time and trouble of the importer.

When goods are imported into Canada, it is necessary for the purchaser to insist on getting from the vendor *three invoices having on each and signed in writing* (not stamped) a declaration as to the accuracy of the invoice. It is especially necessary to insist on the third invoice when ordering from firms in the United States, the majority of whom are not familiar with this requirement and consequently, owing evidently to the custom in their own country, usually send two invoices only.

These three invoices and a Through Bill of Lading, if the goods are coming from across the ocean, will arrive by mail some time in advance of the goods. When the shipment arrives, the transportation company sends to the purchaser an *Advice Notice,* advising the purchaser that the goods have arrived and are held *in bond.* In order to "pass" the shipment, the Customs House Broker must be supplied with (*a*) two of the invoices above referred to, *each of which must be signed by the purchaser;* (*b*) the Through Bill of Lading; (*c*) the Advice Notice.

A statement of duty and brokerage will next be received from the broker. When this amount has been paid, the shipment will be "passed" and delivered by the cartage agency having charge of such work. When the goods are delivered, an *Advice Notice* in duplicate is presented by the carter, who, when the freight is paid, signs No. 1 and leaves it with the buyer as a receipt for payment of charges while he takes the buyer's signature on No. 2, which he retains as a receipt for the safe delivery of the goods.

You will notice that the invoice for goods just delivered is in Pounds, Shillings and Pence. Your books are kept in dollars and cents, so that it becomes necessary for you to convert £1,032 18s 8d into dollars and cents. The par of exchange is $4.86 2/3, which means that one pound is equivalent to $4.86 2/3. The experience of business men has led to the practice of converting sterling invoices to dollars and cents, not at $4.86 2/3 but at $4.90. This has come about because while the par of exchange is $4.86 2/3, it is very seldom that exchange is at par when drafts are being remitted in payment for invoices. For many years prior to the War exchange between Winnipeg, Toronto or Montreal and London was usually at a premium, ranging from $4.87 to $4.90. If the importer extended

his invoice at \$4.86 2/3 and found that on making payment he was required to pay \$4.90, he was confronted with a considerable *expense* for exchange which he believed *should be properly charged to the cost of mdse.* To accomplish this, he formed the practice of extending his invoices at \$4.90, thus charging "Mdse. Purchases" with what he thought he might reasonably be expected to pay for exchange when settling for the invoice. When in a large concern each department is charged with goods purchased for it, by making the cost of exchange a part of the cost of the goods, each department is made to bear its share of this cost instead of the whole cost of exchange being charged against the Administrative Expense, as would be the case if invoices were extended at \$4.86 2/3 and no record made for exchange until settlement dates when it would be almost impossible to charge the proper proportion of exchange to each department.

A very abnormal condition has arisen since the war. Exchange on London has been as low as \$3.75, but this is merely owing to exceptional circumstances, and it is believed by all that in the near future exchange will again be at a premium and on that account, if the practice of extending invoices at or below par has prevailed for the past few months, the former practice of making extension at \$4.90 will in a very short time be resumed.

When extending the invoice for the purpose of finding the amount of duty it must be remembered that the \$4.86 2/3 *not* \$4.90 is used.

Convert the amount of the invoice to dollars and cents at \$4.90, and when entering the amount in the Purchase Book, write the amount in the memo. column in pounds, shillings and pence also. When posting, enter the amount in the memo. column in pounds, shillings and pence and in the money column in dollars and cents.

When you come to settle this invoice, exchange may be quoted at \$4.90, in which event you will "break even," that is, the amount of cash paid for the draft bought to settle the debt will be exactly the amount now entered in your books as owing to F. Spaulding & Co. If exchange is then quoted at a discount, it will be necessary for you to credit exchange with the amount you profited by reason of the exchange being quoted in your favor, that is, below the figure at which the invoice was extended, \$4.90.

Amount of Invoice in \$ and c @ \$4.90 = \$x,xxx.xx; Amount of Duty is \$754.05; Brokerage, 75c. Calculate the cost of the Paper per pound to four decimal places and enter it in your Perpetual Inventory. Have the cost verified by your teacher.

Dec. 31. Transfer the Petty Cash Payments to the General Cash Book, and issue a check to bring the fund to its original amount.

Dec. 31. Received from Henry Bell & Co. a check for \$100 on account (too late for deposit).

Dec. 31. Your Bank Pass Book appears as illustrated on page 209.

Have all your work checked and post to Subsidiary Ledgers. Foot and rule your books of original entry. Recapitulate your Sales. Reconcile your cash.

Posting to General Ledger. It will be necessary for you to now give special attention to your General Ledger posting. You have already posted to the Subsidiary Ledgers all items which affect those books. In posting to the General Ledger, proceed as follows:—

1. Journal:—Post all items, being careful to see that for every debit made in the General Ledger, you have made a corresponding credit.

2. Purchase Book:—(*a*) Post the total of the 1st money column (left side) to the *credit of Accounts Payable* in the General Ledger as indicated by the heading; (*b*) Post the total of the 2nd money column to the *debit of Mdse. Purchases* in the General Ledger; (*c*) Post the total of the 3rd money column to the *debit* of the "Office Supplies" in the General Ledger; (*d*) Post the total of the 4th money column to the debit of "Warehouse Supplies" in the General Ledger;

THE COLLEGE BANK

In Account With Adams & Gordon

Date				Deposits		Checks		Checks		Checks	
19–		Bal		256	23	68	50	9394	89	21074	77
Dec	1	Deposit	J	1750	58	2001	25	160	—	75	—
"	3	Duncan	R	239	70	175	—	71	25	100	—
"	4	Dow	R	881	90	1000	—	43	—	21249	77
"	4	Discount	R	2161	03	132	—	6	73		
"	10	King	R	496	88	2	06	3000	—		
"	10	Discount	R	2983	23	3000	—	2000	—		
"	12	Long	R	2662	27		10	2	21		
"	14	Deposit	J	1122	84	12	—	74	40		
"	16	Graham	R	719	10	89	80	961	25		
"	16	Miller	R	606	24	1825	—	1482	59		
"	18	Deposit	J	5473	92	1	50	2802	—		
"	22	"	J	1765	—	182	—	19	85		
"	22	Rebate	R	1	64	540	—		10		
"	26	Davis & Co	R	572	57	100	—	161	50		
"	28	Bell	R	499	37	75	—	175	—		
"	29	Dow	R	1057	68	175	—	560	—		
"	29	Holt	R	1352	81	15	68	160	—	3353	22
				24602	99	9304	89	21074	77	24602	99

Illustration No. 168

(*e*) Post the *items* of the last money column to the debit of their respective accounts in the General Ledger. Check each posting as it is made. The total of the last four money columns is now entered in the General Ledger on the *Debit* side, while the total of the first money column is posted to the General Ledger on the *Credit* side. But the total of the first money column is equal to the sum of the other four, therefore in your posting to the General Ledger you have maintained the balance of this book.

3. Cash Book (Receipts):—Follow the same plan as in posting from the Purchase Book, namely, omitting the "Memo." columns, in the General Ledger post the footings of the respective columns to the *debit* of (*a*) Cash, (*b*) Sales Discounts, (*c*) Collection & Exchange, (*d*) Interest. In the same manner, post the totals of the other money column on the received side to the credit of (*a*) Accounts Receivable, (*b*) Mdse. Sales, and the items of the "Other Accounts" column to the credit of their respective accounts.

4. Cash Book (Payments):—Post the footings of the first two columns to the *credit* of (*a*) Cash, (*b*) Purchase Discounts. Post the *footings* of the next two columns, as the headings will indicate, to the *debit* of (*a*) Accounts Payable, (*b*) Collection & Exchange, and the items of the "Other Accounts" column to the *debit* of their respective accounts.

Again you have posted to the General Ledger equal debits and equal credits as the addition of the various columns will prove.

5. Sales Book:—(*a*) Post the total sales as shown in the Recapitulation Sheet to the debit of Accounts Receivable and also to the credit of Mdse. Sales. (*b*) Post the total of the returns to the credit of Accounts Receivable and to the debit of Sales Rebates and Allowances.

6. Bills Receivable:—(*a*) Post the total of the first money column to the debit of Bills Receivable Account. (*b*) Post the total of the third money column to the credit of Accounts Receivable Account.

7. Bills Payable:—(*a*) Post the total of the first money column to the *credit* of Bills Payable Trade. (*b*) Post the total of the second money column to the *debit* of Accounts Payable.

Proving Balances of Accounts. Prove your Bills Receivable & Bills Payable balances by comparing them with the bills on hand or outstanding as shown by the Bills Receivable and Bills Payable Books.

Foot all the accounts and show the totals or balances in lead pencil figures.

Make a Preliminary Trial Balance.

Proving the Subsidiary Ledgers. Prove your Sales Ledger by adding the balances due to Adams & Gordon and comparing the total with the Accounts Receivable Controlling Account in the General Ledger.

Prove your Purchase Ledger by adding the amounts due by Adams & Gordon and comparing the total with the Accounts Payable Controlling Account in the General Ledger.

Dec. 31st is the end of Adams & Gordon's financial year, and it will be necessary to close the books. The books were closed on Sept. 30th, when Mr. Henry Gordon was admitted, therefore the profit shown by the present closing will be for three months only. This three months' period must be taken into consideration when the depreciation and other adjustments are being made.

In closing, the student should proceed as follows:—

1. *Stock Taking:*—Prepare a Mdse. Inventory from the Perpetual Inventory Sheets. Extend the items on the inventory list at the prices entered on the Perpetual Inventory Sheets. For Canadian goods on which inward charges are small, the easiest method of figuring the inventory value is to add a percentage to the invoice cost for all inward charges. This percentage would represent the cost of Incoming Freight, Cases, etc., and would be the average taken from a number of incoming invoices. The cost of incoming freight and cases on Canadian Goods purchased by Adams & Gordon during the past three months are as follows: (*a*) Goods purchased in Montreal, 1% of the Invoice; (*b*) Goods purchased in Toronto, ½% of the Invoice; (*c*) Goods purchased in Hamilton, ¼% of the Invoice. These percentages are only approximate, but will serve your purpose for stock taking.

As the goods purchased in England have to be entered on the inventory sheet at actual cost including all charges, you will extend those items at the price per pound which the goods cost. If you were to figure the actual cost by adding together the invoice cost, the duty and brokerage, and the Inward Freight, there would be a difference of a few cents between the actual figure and those ascertained from your Perpetual Inventory Sheet, owing of course to the uneven decimal, but the difference is so small that it is not worth considering, and you will, therefore, extend the English goods according to the actual cost of the paper per pound as shown to the fourth decimal place on your Perpetual Inventory Sheet and previously checked by your teacher.

2. *Adjustments:*—(Sundry inventories.) Advertising Materials on Hand, $43.00; Insurance prepaid, $xxx.xx; Interest accrued on Bills Receivable to date, $x.xx; Interest Prepaid included in face of C. R. Andrews' note of Dec. 11 —$5.32; Coal on Hand, $89.32; Cases on Hand at cost, $19.75; Interest accrued on Mortgage Payable, $xx.xx; Office Supplies on Hand, $31.60; Travellers' Salaries Prepaid, $20.00; Warehouse Supplies on Hand, $61.00.

Classify the above items except "Cases" under Deferred Charges, Accrued Assets and Accrued Liabilities and make the necessary journal entries to adjust

the respective accounts so that they will individually show the actual expenditure for the past accounting period (three months).

3. *Provisions:*—(*a*) Provide for a depreciation of 2% per annum on Buildings. (*b*) Furniture and Fixtures was depreciated 10% on Sept. 30th. This is considered by Mr. Adams to be a sufficient depreciation for the complete year on the Furniture & Fixtures on hand at that date. Provide for a depreciation of 2½% of cost (10% per annum) on all Furniture & Fixtures purchased since Sept. 30th last. (*c*) Provide for a depreciation of 8% on cost of Delivery Equipment.* (*d*) Provide for possible bad debts an amount equal to 1% of the Accounts Receivable. (*e*) As Letter Books are practically "dead stock" (unsaleable), it has been decided to provide for a depreciation on Mdse. Inventory sufficient to reduce the value of Letter Books to one-fourth of their cost, which is a depreciation of $27.00. This may be done by extending this item on the inventory sheets at the reduced figure or by extending it at cost and creating an Inventory Reserve for Depreciation similar in every respect to that created for Furniture and Fixtures. You will adopt the former plan. If a reserve account were opened for this depreciation it should be closed into the inventory account at the end of the succeeding year if a similar reserve is not then required. Make journal entries according to the above instructions.

4. *Other Adjustments:*—Make journal entries to close into the Mdse. Sales & Mdse. Purchases accounts all items that will affect these accounts, so that the *net* sales and *net* purchases will be shown in these two accounts. In making these entries, the student must consider "Sales Rebates & Allowance," "Cases" and "Freight Prepaid & Charged" accounts. The first two of the above accounts were thoroughly discussed in your last closing. The value of Cases on hand at closing is $19.75. The cost of Cases bought is $161.25. The difference, $141.50, has been charged to customers on invoices and as the total of the invoices has been periodically posted to the credit of Mdse. Sales, it naturally follows that there is now entered on the credit of Mdse. Sales an amount which should not appear in that account. This item must, therefore, be deducted from the Mdse. Sales before the true net sales will be shown. This will be done by debiting Mdse. Sales and crediting Cases with the value of the cases charged on invoices. Freight & Express Prepaid & Charged is somewhat similar. This account represents an amount advanced by us to the Freight and Express Companies for our customers. As this amount was charged on the invoices, it naturally increased the Sales account when the Total was posted from the Recapitulation Sheet. This, too, must be deducted from the Sales account by debiting Sales and crediting Freight & Express Prepaid & Charged.

5. *Financial Statements:*—Prepare a Working Sheet. If it is the wish of the teacher that the Working Sheet be omitted it will be necessary for you to prepare the usual Financial Statements (Profit & Loss & Balance Sheet) at this point. If the Working Sheet is made, the Financial Statements will be made after the Ledger has been closed.

6. Have all your work checked by your teacher.

Close the ledger by the Journal Entry method. Have your Working Sheet before you and check each account as it is closed. Rule each account as it balances.

* NOTE.—The usual depreciation on Trucks is 25% per annum. For purposes of finding sale value, the Delivery Equipment should be depreciated 25% on the present date, even though it was purchased a very short time ago. To Adams & Gordon as a going concern, the depreciation is not intended to reduce the account to its actual sale value, but to reduce it according to wear and tear so that each year will bear its proper share of the cost of the equipment, keeping in mind the fact that it will rapidly become obsolete and useless. As 25% per annum is the usual percentage for depreciation on Trucks, 8% will represent the proper depreciation for the past three months. Many accountants might favor writing off the complete 25% on Delivery Equipment at the end of a financial period, even though the articles represented by the account have been recently purchased, but this is a matter which might well be left for the student to study at a later stage in his work. For additional information, the student is referred to Depreciation Reserves and Reserve Funds by Lawrence R. Dicksee, M. Com., F.C.A.

Proceed as follows: Make journal entries which when posted will effect the following:—

a. Close the Trading Account. (This may be done by a single journal entry or by a journal entry for each account. If a single journal entry is made, enter the *items* in the Trading Account.)

b. Close the Trading Account into Inventory Account and Profit & Loss.

c. Close the Nominal Accounts into Profit & Loss. (This may be done by a single journal entry or by a journal entry for each account. If a single journal entry is made, enter the *items* in the Profit & Loss Account.)

d. Close the various adjustment accounts such as Deferred Charges, Accrued Assets, etc., back into the respective accounts from which the items were taken.

e. Close the Profit & Loss account into an Appropriation or Undivided Profits Account.

f. Close the Undivided Profits Account according to clauses 6-10 of the Articles of Partnership.

g. Balance and rule the Real Accounts, showing balance in red ink. Bring down the balance below the rulings in black ink. Accounts having only one item need not be ruled unless the account is in balance.

§ 236. Appropriation or Undivided Profits is the last division of Profit & Loss account in which the balance of Net Profit is left, until it is decided by the partners what disposition of the Net Profit will be made. In a well conducted firm, it is not unusual to find a portion of the net profit left in a Reserve for Contingencies or Rest or General Reserve Account. The undistributed profits may even be left in the original Profit & Loss Account. No matter what name is applied to the account which represents profits which are undistributed, the result of the account (which must have a credit balance) is not a liability but is a part of the Capital.*

THE INTEREST CHARGED OR ALLOWED ON CAPITAL of partners is sometimes recorded in the Profit & Loss account *before* the net profit is shown. This procedure is not recommended, especially when partners draw salaries for their services. The allowance of interest on capital can be adjusted in the second division of the Profit & Loss account, and serves to bring to the attention of the partners to what extent they have derived additional profit by placing their money in a trading concern as compared with the return they would have made had they merely invested their capital in stocks or securities and drawn the interest or dividends accruing from their investments.

§ 237. Grouping, Ranking or Marshalling Assets. For purposes of your bookkeeping, up to this point, you have been instructed to regard assets as falling naturally into three subdivisions: 1st, Quick or Current; 2nd, Fixed; 3rd, Other Assets (intended to include Deferred Charges, Accruals, etc.).

When this classification is employed, the terms Quick, Current, Liquid, Circulating and Floating are used synonymously. For practical purposes in preparing a Balance Sheet, the above classification is sufficient, as most balance sheets show the assets in these three classes only.

For examination purposes, however, a finer distinction may be made by the student. Quick or Current Assets are those in which the business deals and which are acquired for the purposes of resale. They include all assets resulting from sales which are of such a nature as will permit of their being readily converted into cash in the usual course of business. Quick Assets may be divided into two classes:—(*a*) Liquid—Cash and those assets which are in the best state for immediate conversion into cash. *e.g.* Funds invested in listed stocks or anything at all times which may be immediately converted into cash.

*NOTE.—Recent decisions in legal cases have made it somewhat doubtful as to the wisdom of allowing the Capital Accounts of partners to be altered by the inclusion of net profits, drawings, etc., as the Judges have appeared to imply by remarks in these cases that it would be more correct to keep a current account for each partner, to which all shares of net profits, interest on capital, drawings, etc., would be passed, leaving the partners' Capital Accounts to show the amount of capital as originally subscribed.—FRANK DOWLER, A.C.A., in Auditing, Accounting & Banking.

(*b*) Circulating or Floating—Those Quick Assets which will be converted into cash in the usual course of business, such as Bills Receivable, Accounts Receivable and Stock in Trade. These assets are said to be floating or circulating because in the course of their conversion into the most liquid form "Cash," their nature changes from Stock in Trade to Accounts Receivable, Bills Receivable, and ultimately to a definite liquid form "Cash." Those assets are said to be most liquid which are most easily converted into "ready money."

Fixed or Capital Assets are those of a permanent nature by means of which the business is carried on and which are *not* held for the purpose of sale. *e.g.* Land, Buildings, Plant, Machinery, Tools, Furniture & Fixtures, Delivery Equipment, etc. Fixed Assets may be divided into *Tangible,* such as those suggested above, and *Intangible* represented by Goodwill, Copyrights, Patents, Trademarks, Designs, and similar accounts. The "Other Assets" subdivision is intended to provide for Deferred Charges, Accrued Assets, and all those which would not naturally fall into the former subdivisions.

§ 238. **Order of Displaying Groups of Assets.** In preparing a Balance Sheet, the groups of assets are usually displayed in the order of their availability for the discharge of liabilities. As a result, those assets which may be readily realised, come before those which are not so easily converted into cash. Liabilities are usually displayed in the order in which they would be required to be met. While this order of marshalling assets and liabilities is usually adopted, another method which is the reverse of that suggested above, is sometimes found in balance sheets prepared by accountants.

§ 239. **Wasting Assets.** Fixed Assets which decrease in value owing to consumption in the process of earning income or other causes are frequently referred to as Wasting Assets, e.g. Mines, Quarries etc.

§ 240. **The Use of Assets Determine Their Classification.** In § 235, Machinery was referred to as a Fixed Asset. This is true if the machinery is used in the business. If, however, the manufacture or sale of implements and machinery were the business of the concern under consideration, machinery manufactured or purchased for resale would not be a Fixed, but rather a Current, or Quick Asset. It is, therefore, not the *name* of the asset but the nature or purpose for which it is purchased that determines the class to which it belongs.

§ 241. **Classification of Liabilities.** True Liabilities may be said to consist of amounts due by the firm to outside creditors. There is frequently included under the term Liabilities, those amounts due to the Proprietor of the business for funds originally invested (Capital), and also the Undistributed Profits (Surplus or Added Capital), including reserves of various natures. In preparing a Balance Sheet, *Liabilities should be distinctly separated from all forms of Capital* whether it be the Capital originally invested or subsequent profits earned. The true liabilities vary in character. Those which are the result of the daily trading of the firm and are consequently expected to be paid in a short time, are usually termed *Current or Floating Liabilities.* Those which are of a more permanent character or which the trader will not be called upon to pay for a long time are known as *Fixed Liabilities*, sometimes called *Capital Liabilities.* The order in which Liabilities should appear on a Balance Sheet is a subject on which accountants differ, but it is usually conceded that those liabilities should appear first which must first be met. *Specific Reserves,* which are created as offsets to assets which for Bookkeeping purposes are carried on the books at cost instead of at their properly reduced value, should in a Balance Sheet be deducted from the asset to which they apply instead of appearing among the liabilities. *General Reserves** which are not created to provide against anticipated losses but to strengthen the business by retaining profits for unforeseen contingencies, should be regarded as portions of the profit previously earned. They are not therefore True Liabilities, but should properly appear in a Balance Sheet as a part of the Capital.

Make a Trading & Profit & Loss Statement, a Balance Sheet, a Proof Trial Balance, a Statement showing Insurance in force and a statement showing Liquid Surplus. See illustrations No. 169 and 170.

In preparing the Balance Sheet, make a footnote showing contingent liabilities.

* The student must bear in mind that he has not read the "last word" in this particular and must refine his superficial knowledge of Specific Reserves, General Reserves and Reserve Funds by further study in the Advanced Edition of this work.

§ 242. **A Trade Acceptance** is a form of draft used in the United States and which in that country is defined as "a bill of exchange drawn by the seller on the purchaser and accepted by the purchaser." It is assumed that the acceptance is made on the date of purchase or a short time afterwards.

Neither the Canadian Bill of Exchange Act nor Canadian or British business customs recognize the term "Trade Acceptance."

§ 243. **Accommodation Bill.** A bill drawn, accepted, or endorsed, though no value has been given for it. Such a bill is usually made by two or more persons with a view to its being discounted for the temporary accommodation of one or all of the parties concerned.

§ 244. **Kite** is a name applied to an Accommodation Bill.

§ 245. **Kite-flying** is dealing in fictitious or accommodation bills in order to raise money to keep up one's credit.

§ 246. **Customs Duty** is a tax levied by the government on goods imported.

§ 247. **Excise Duty** is a tax levied on certain articles produced or manufactured and consumed in Canada and charges for license to deal in or use certain articles or to carry on certain trades or professions.

ADAMS & GORDON
TRADING & PROFIT & LOSS STATEMENT FOR PERIOD ENDING DEC. 31, 19 .

TRADING							
Mdse. Sales Gross				xx,xxx	xx		
Deduct:-							
Rebates & Allowances			xx xx				
Cases Charged on invoices			xxx xx				
Freight Charged on invoices			xx xx	xxx	xx		
Net Sales (Turnover)						xx,xxx	xx
Inventory Sept. 30th		xx,xxx xx					
Mdse. Purchases Gross	xx,xxx xx						
Less, - Purchase Rebates & Allowances	x xx						
Net Purchases		xx,xxx xx	xx,xxx xx				
Add, - Duty & Brokerage			xxx xx				
" - Freight Inward			xxx xx				
Total cost of Goods Purchased				xx,xxx	xx		
Deduct Inventory Dec. 31st				xx,xxx	xx		
Cost of Goods Sold						xx,xxx	xx
Difference being Gross Trading Profit or Income						xx,xxx	xx
PROFIT & LOSS							
Gross Trading Profit						xx,xxx	xx
Warehouse & Delivery Expense:-							
Delivery Expense			xx xx				
Warehouse Postage			xx xx				
Warehouse Salaries			xxx xx				
Warehouse Supplies			xxx xx	xxx	xx		
Selling Expense:-							
Advertising			xxx xx				
Travellers' Salaries			xx,xxx xx				
" Expenses			xxx xx				
H. Gordon (Salary)			xxx xx	x,xxx	xx		
General Administrative Expense:-							
Geo. Adams (Salary)			xxx xx				
Building Repairs & Renewals			xxx xx				
Collection & Exchange			xx xx				
General Expense			xx xx				
Insurance			xx xx				
Interest			xxx xx				
Light, Fuel & Water			xx xx				
Office Postage			xx xx				
Office Salaries			xxx xx				
Office Supplies			xxx xx				
Taxes			xx xx				
Telephone			xx xx	x,xxx	xx		
Bad Debts				xxx	xx		
Depreciation				xxx	xx		
Purchase Discounts						xxx	xx
Sales Discounts				xxx	xx		
Net Profit				x,xxx	xx		
				xx,xxx	xx	xx,xxx	xx

Illustration No. 169

§ 248. **A Customs House** is a place appointed by the government for the imposing and collecting duties.

§ 249. **The Tariff** is the list or schedule prepared by the government indicating the articles on which duty is levied and the rates charged.

§ 250. **Ad Valorem Duty** is a duty based on the value of the goods.

§ 251. **Specific Duty** is a duty based on a definite charge per unit.

§ 252. **In Bond** means held for duty.

§ 253. **A Bonded Warehouse** is one approved by the government and in which dutiable goods may be stored until the owner decides to pay the required duty.

§ 254. **Advice Notice** is a form sent to a consignee by a transportation company to notify him of the arrival of a shipment.

ADAMS & GORDON
STATEMENT OF ASSETS, LIABILITIES & CAPITAL, Dec. 31, 19 .

ASSETS							
Quick or Current Assets:-							
1. Liquid:							
a. Cash in Bank	x,xxx xx						
b. Cash on Hand	xxx xx						
c. Imprest Fund	xx xx		x,xxx xx				
2. Floating or Circulating Assets:							
a. Accounts Receivable	xx,xxx xx						
Less Reserve for Bad Debts	xxx xx	xx,xxx xx					
b. Bills Receivable		x,xxx xx					
c. Mdse. Inventory	xx,xxx xx						
Less Reserve for Depreciation	xx xx	xx,xxx xx					
d. Accrued Assets		x xx	xx,xxx xx				
Fixed or Capital Assets:-							
1. Tangible:							
a. Real Estate Land		x,xxx xx					
b. Real Estate Buildings (Cost)	xx,xxx xx						
Less Bldg. Depreciation Reserve	xx xx	xx,xxx xx					
c. Delivery Equipment (Cost)	x,xxx xx						
Less Del. Equip. Deprec'n Reserve	xxx xx	x,xxx xx					
d. Furniture & Fixtures (Cost)	xxx xx						
Less F. & F. Depreciation Reserve	xx xx	xxx xx	xx,xxx xx				
2. Intangible							
a. Goodwill			x,xxx xx				
Other Assets:-							
1. Cases on Hand		xx xx					
2. Deferred Charges		xxx xx	xxx xx			xx,xxx	xx
LIABILITIES & CAPITAL							
Floating or Current Liabilities:-							
1. Accounts Payable		xx,xxx xx					
2. Bills Payable (Trade)		xx xx					
3. Bills Payable (Bank)		x,xxx xx					
4. Accrued Liabilities		xx xx	xx,xxx xx				
Fixed Liabilities:-							
1. Mortgage Payable			x,xxx xx	xx,xxx	xx		
Capital:-							
Geo. Adams	xx,xxx xx						
Geo. Adams Profit	x,xxx xx	xx,xxx xx					
Henry Gordon	xx,xxx xx						
Henry Gordon Profit	x,xxx xx	xx,xxx xx		xx,xxx	xx	xx,xxx	xx
Contingent Liabilities:-							
Bills Receivable discounted and not due x,xxx xx							

Illustration No. 170

EXAMINATION, SECTION 18.

1. A merchant whose business has been increasing rapidly has been keeping his records in three ledgers (General, Purchase & Sales) all balancing as one ledger. He decides to employ two additional junior ledgerkeepers. Outline a suitable division of the work in this office by which the accountant may keep a satisfactory check on the accuracy of the ledgerkeepers and explain thoroughly the relation of each ledger to the general ledger, under the system you have suggested.
2. Explain the method of posting from the Sales Book, Purchase Book and Cash Book, when controlling accounts are kept for the Sales and Purchase Ledgers.

3. What is a Subsidiary Ledger?
4. Explain Sales Ledger Adjustment Account.
5. What is a Self-Balancing Ledger?
6. Is it desirable to keep adjustment accounts in each of the ledgers? Give reasons for your answer.
7. Explain (*a*) "Principal Ledger;" (*b*) Subordinate Ledger;" (*c*) "Contingent Liability."
8. Explain two methods of showing on a balance sheet contingent liabilities resulting from bills discounted.
9. What entry is made when a bill receivable which has been discounted is dishonored at maturity?
10. Explain "Kite Flying." Is such a practice looked upon with favor by bankers? Give reasons for your answer.
11. What is a Trade Acceptance, and where is it used?
12. What entry would be made when a merchant's promissory note in favor of his bank, discounted for credit, has been retired before maturity?
13. How are bills usually accepted?
14. What is a "Qualified Acceptance?"
15. How may acceptances be qualified?
16. Is the holder of a bill bound to accept a qualified acceptance?
17. If by reason of a qualified acceptance a bill is treated as dishonored, what must the holder do?
18. May the holder of a bill take a qualified acceptance without the consent of the drawer and endorsers?
19. Define: (*a*) Customs Duty; (*b*) Excise Duty; (*c*) Tariff; (*d*) Customs House; (*e*) Clearing; (*f*) Bonded Warehouse.
20. How many invoices are necessary when foreign goods are purchased?
21. How are these invoices used?
22. What is the business of a Customs House Broker?
23. With what papers is it necessary to provide a broker before he can clear your goods?
24. At what rate of exchange is it customary for merchants receiving invoices in £, s & d, to convert them into $ & c?
25. Why is this rate used?
26. How can a junior ledgerkeeper who is in charge of a subsidiary ledger, not self-balancing, verify the accuracy of his posting at the end of the month?
27. Name the accounts which may require adjustments at the end of a financial period in order to prepare the usual financial statement.
28. What is an Appropriation Account?
29. If interest is allowed on the capital invested by each partner, where should it be recorded on closing? Give reasons for your answer.
30. In the event of a total loss by fire on Dec. 31st, what would be the loss sustained by Adams & Gordon on Stock, provided that each policy contained an 80% Co-Insurance Clause?
31. If the fire loss were only 70% of the value of the total stock, what would be tre loss sustained, provided that each policy contained an 80% Co-Insurance Clause?
32. What is a Line of Credit and how is it obtained?
33. What are the usual forms of security given to a bank to secure a Line of Cit?ehd
34. Explain the difference between Trade & Bank Bills Payable.
35. Are Trade and Bank Bills Payable recorded in the same account? Give reasons for your answer.
36. How would you show the following on a balance sheet: (*a*) Reserve for Depreciation on Furniture & Fixtures; (*b*) Reserve for Bad Debts; (*c*) Fuel on hand at closing; (*d*) Insurance premiums prepaid on closing; (*e*) Rent payable by us accrued and not recorded; (*f*) Rent paid to us in advance?
37. Classify (*a*) Assets; (*b*) Liabilities.

Section 19

At this point we recommend the introduction of

OFFICE WORK No. 2

a complete Business Practice.

Index

CANADIAN MODERN ACCOUNTING

PART II

BY

FRANK G. SHORT, C.A.

Published by
THE COMMERCIAL TEXT BOOK COMPANY
TORONTO CANADA

Contents

Section 19

COMPANIES.

§ 255. **Corporations.** A "*corporation*" is an association of persons created by law or under authority of law to act as a single person ; it has rights and duties distinct from those of its individual members, it is endowed with the capacity of perpetual existence irrespective of that of its members, and it is empowered to transact business of a designated nature or to act in a specified capacity as if it were a natural person.

§ 256. **Companies.** In Canadian law the term "*company*" may be said to include that class of corporation which is engaged in the carrying on of business, with a view to profit. The company is the only class of corporation which comes within the scope of this work and the remainder of the text will be confined to a discussion of companies and their accounts.

§ 257. **" Created by Law or Under Authority of Law."** Returning to our definition—" A corporation (company) is an association of persons created by law or under authority of law." In our study of partnerships we found that a partnership exists as the result of an *agreement*. The partnership agreement may even be a verbal or implied contract. A company, however, does not exist by agreement but is *created* by law.

In Canada, a company may be created or "*incorporated*" by one of the following alternative methods :—

1. By special Act of the Dominion Parliament or one of the Provincial Legislatures.
2. Under the Companies Act of the Dominion or one of the Provinces:
   (*a*) By Letters Patent.
   (*b*) By Registration.

Very few companies are now incorporated by special Act of Parliament, there being no necessity for it except in the case of those businesses that are deemed to require special supervision on the part of the Government. A chartered banking company, for instance, can only be incorporated by special Act of Parliament. All ordinary companies may be incorporated under the Companies Acts and, as the method of incorporation has no effect on the accounts of the company, we will limit our discussion to companies incorporated under the Companies Acts.

The Dominion Companies Act, and the Companies Acts of Ontario, Quebec, Manitoba, and New Brunswick, provide that the Secretary of State (Dominion) or the Provincial Secretary may issue a certificate of incorporation or "*Letters Patent*" incorporating a company upon application of the incorporators. Illustration No. 171 shows Letters Patent as issued under the Ontario Act.

In the remaining provinces the incorporation is completed when a "*Memorandum of Association*" is filed with the Registrar of Joint Stock Companies. This memorandum, properly filed, corresponds in effect to the Letters Patent.

§ 258. **" To Act as a Single Person."** It is important that the student should thoroughly understand the theory of "*entity*," as once that theory is understood the important differences between the partnership and the company seem quite natural. Partnership has been defined as " the relation which subsists between *persons* carrying on business in common with a view to profit." The basic difference between the partnership and the company is that, in the case of the company, *it is the company and not the " persons "* which carries on the business. That is, the company is an entity distinct from its members. Blackstone refers to it as an "*artificial person.*"

Regarding the company then as an artificial person or distinct entity created by law, the thought that immediately arises is " How can an artificial person carry on business ?

1—(612w)

Province of Ontario

By the Honourable

HARRY CORWIN NIXON

Provincial Secretary

To all to whom these Presents shall Come

Greeting

Whereas *The Ontario Companies Act provides that with the exceptions therein mentioned the Lieutenant-Governor may by Letters Patent create and constitute bodies corporate and politic for any of the purposes to which the authority of the Legislature of Ontario extends*

And Whereas *by the said Act it is further provided that the Provincial Secretary may under the Seal of his office have, use, exercise, and enjoy any power, right, or authority conferred by the said Act on the Lieutenant Governor:*

And Whereas *by their Petition in that behalf the persons herein mentioned have prayed for Letters Patent constituting them a body corporate and politic for the due carrying out of the undertaking hereinafter set forth*

And Whereas *it has been made to appear that the said persons have complied with the conditions precedent to the grant of the desired Letters Patent and that the said undertaking is within the scope of the said Act*

Illustration No. 171

NOW THEREFORE KNOW YE that I

H a r r y C o r w i n N i x o n, Provincial Secretary

under the authority of the hereinbefore in part recited Act

DO BY THESE LETTERS PATENT HEREBY CONSTITUTE the Persons hereinafter named that is to say

J o h n R o b e r t J o n e s, Barrister-at-Law; J a m e s E d w a r d S i m p s o n, Barrister-at-Law; C h a r l e s G e o r g e R o b i n s o n, Student-at-Law; M a j o r i e C a t h e r i n e T h o m a s, Bookkeeper; and M a r y J a n e S m i t h, Stenographer; all of the City of , in the County of and Province of Ontario; and any others who have become subscribers to the Memorandum of Agreement of the Company, and persons who hereafter become shareholders therein, a Coporation under the name of

A D A M S & G O R D O N,
L i m i t e d,

for the following purposes and objects, that is to say:-

(a) TO carry on the business of manufacturers, importers and dealers in books, stationery, office supplies and goods of all kinds; (b) TO act as manufacturers' agents.

THE CAPITAL of the Company to be One Hundred Thousand dollars, divided into One Thousand shares of One Hundred dollars each;

THE HEAD OFFICE of the Company to be situate at the said City of (Your Address) and

THE PROVISIONAL DIRECTORS of the Company to be John Robert Jones, James Edward Simpson, and Charles George Robinson, hereinbefore mentioned;

AND, subject to the provisions of Part VII of The Ontario Companies Act, IT IS HEREBY FURTHER ORDAINED AND DECLARED that the Company may pay a commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the Company or procuring or agreeing to procure subscriptions, whether absolute or conditional, for any shares in the Company; PROVIDED, however, that the said commission shall not exceed twenty-five per centum of the amount realised upon the sale of such shares;

GIVEN under my hand and Seal of office at the City of Toronto in the said Province of Ontario this second day of January in the year of Our Lord One thousand nine hundred and .

"H. C. Nixon."

Provincial Secretary.

Letters Patent Issued under Ontario Companies Act

To carry on business requires management and capital and an artificial person has neither." This is true, but the company can provide itself with both.

While a company—not being a natural person—cannot manage its own affairs, its affairs can be managed for it by trustees. These trustees are known as "*Directors*," and when referred to as a group are known as the "*Board of Directors*." With certain exceptions they transact all the business of the company either personally or through employees. This Board is elected annually by the members from among themselves. The Board appoints from its members the "*Officers*" of the company (usually a President, Vice-President, Secretary, and Treasurer) and these officers fulfil the usual duties of their respective offices until their successors are appointed. In cases where the Directors are not closely in touch with the business of the company they usually appoint, in addition to the usual officers, a "*Managing Director*" or an "*Executive Committee*," to whom some of the powers of the Board are delegated. It is also permissible, and customary, for the members to approve of "*By-laws*" for governing the affairs of the company. These by-laws have all the effect of laws but are, of course, subordinate to the Companies Act or other laws of the Dominion or Province and to the provisions contained in the Letters Patent.

A company provides itself with capital by the sale of "*Shares*" in its "*Capital Stock*." The possession of one or more of these shares is necessary before a person can become a member of the company. The members, for this reason, are commonly known as "*Shareholders*" or "*Stockholders*." The possession of shares entitles the holder to the following :—

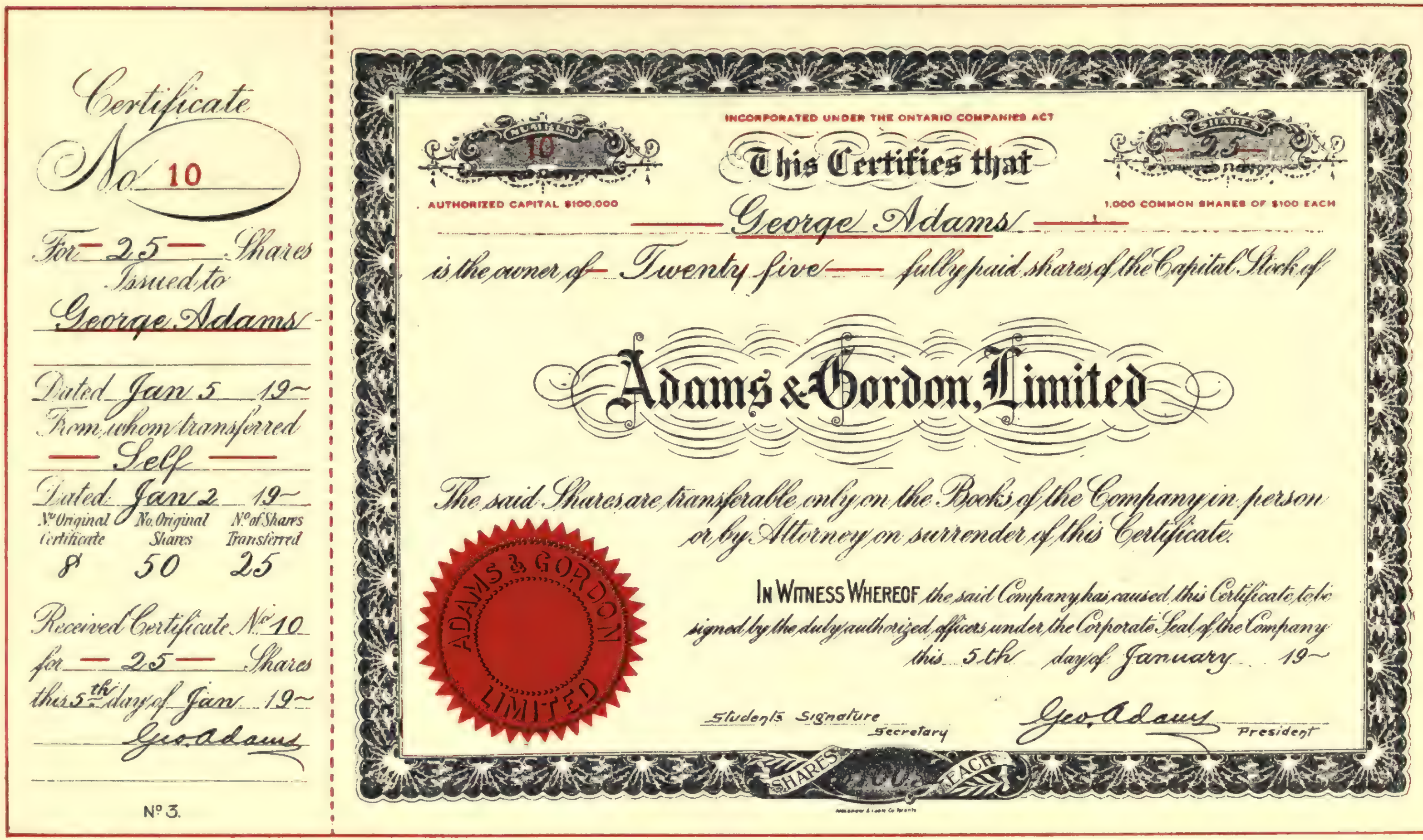
1. A *pro rata* share of the profits of the company as they are distributed to the shareholders. A distribution of profits is termed a "*Dividend*."
2. In the event of the company being "wound up" or discontinuing business, to a *pro rata* share in the surplus assets of the company after all liabilities of the company are paid.

It will be seen from the above that a company is not in any way liable to repay to its shareholders the amount of their contributions to the Capital Stock. They are only entitled to dividends and to a *pro rata* share in the surplus assets in the event of the company being wound up. On the contrary, when a shareholder "*subscribes*" for or agrees to buy shares and his subscription is accepted by the Board of Directors and the shares "*allotted*" or set aside for him, he is bound to take the shares so contracted for.

§ 259. "It has Rights and Duties Distinct from those of its Individual Members." It is obvious that, if a company is a sort of "artificial person" *distinct* from its shareholders, the rights and duties of the company will not be the rights and duties of its shareholders. This fact results in the following features wherein a company differs radically from a partnership :—

1. A company may possess assets but its individual shareholders have no rights therein (except when the company is wound up as already mentioned). All the shareholder has are his shares of stock. Contrast this with a partnership where all assets are owned jointly by the partners.
2. A company may owe money but the shareholders as individuals are under no obligations to pay the debt. All the shareholder is liable for is the shares he agreed to take and once he has paid for these his liability ceases. It is from this fact that the term "*Limited Liability Company*" arises. Contrast this, also, with a partnership, where as a rule each partner is liable to the full extent of his private estate to pay all the debts of the partnership.
3. A company can sue and be sued by its shareholders.

§ 260. "It is Endowed with the Capacity of Perpetual Existence Irrespective of that of its Members." From the points we have already covered it will be seen that when a person invests money in a company he does not receive a joint interest (as in the case of a partnership) but merely shares of the capital stock. The company issues him a "*share certificate*" (see illustration No. 172 for specimen), and this certificate may be transferred



Certificate
No. 10
For — 25 — Shares
Issued to
George Adams
Dated Jan 5 19—
From whom transferred
— Self —
Dated Jan 2 19—

No. Original Certificate	No. Original Shares	No. of Shares Transferred
8	50	25

Received Certificate No. 10
for — 25 — Shares
this 5th day of Jan 19—
Geo. Adams

No. 3.

NUMBER 10
INCORPORATED UNDER THE ONTARIO COMPANIES ACT
SHARES 25
AUTHORIZED CAPITAL $100,000
1,000 COMMON SHARES OF $100 EACH

This Certifies that
George Adams
is the owner of Twenty five fully paid shares of the Capital Stock of

Adams & Gordon, Limited

The said Shares are transferable only on the Books of the Company in person or by Attorney on surrender of this Certificate.

IN WITNESS WHEREOF the said Company has caused this Certificate to be signed by the duly authorized officers under the Corporate Seal of the Company this 5th day of January 19—

ADAMS & GORDON LIMITED

Students Signature
Secretary

Geo. Adams
President

SHARES $100 EACH

Illustration No. 172

Share Certificate with Stub

by endorsement on the back (see illustration No. 173). The fact that shares are transferable in this manner enables them to be bought and sold with comparative ease. The sale of its shares, however, does not affect the company in any manner. It merely alters the personnel of its shareholders, but the company itself takes no part in the transaction (other than to keep proper records of the transfers). It will be seen then that a company is composed of constantly changing individual shareholders.

For Value received I hereby sell, assign and transfer unto Student
Five of
the shares of the Capital Stock represented by the within Certificate and do hereby irrevocably constitute and appoint .... Attorney to transfer the said stock on the books of the within named Company with full power of substitution in the premises.

Dated January 5th 191

In presence of: H. Gordon

Geo. Adams

Note:
The signature to this assignment must correspond with the name as written upon the face of the Certificate in every particular without alteration or enlargement or any change whatever.

Illustration No. 173 Transfer Form on back of Share Certificate

Even the death or bankruptcy of a shareholder has no effect on the business of a company. The shares of the deceased or bankrupt shareholder merely pass to the executor or trustee to be sold or otherwise disposed of in accordance with the terms of the trust. Contrast this with a partnership where the death or bankruptcy of a partner automatically results in a dissolution of the partnership.

It will be seen from the above that a company may have perpetual existence. For instance, the Hudson's Bay Company, originally incorporated in 1670 by Royal Charter from Charles II, is still carrying on business although its original shareholders are long since dead. On the contrary, all companies do not attain such a respectable age and companies are " wound up " for the following reasons :—

1. As a result of bankruptcy.
2. By the voluntary decision of the shareholders.

§ **261. "And it is empowered to Transact Business of a Designated Nature or to Act in a Specified Capacity as if it were a Natural Person."** A company cannot carry on any business or engage in any activity which is not set out either in its Letters Patent or Memorandum of Association or in the Companies Act under which the company was incorporated. In the past companies have been to some extent limited in their " powers." The modern tendency, however, is to broaden the powers of companies. For instance, the Ontario Companies Act now provides several pages of " incidental powers," the first clause of which reads as follows :—

> " A company shall possess as incidental and ancillary to the powers set out in the Letters Patent or Supplementary Letters Patent power to :
>
> (*a*) Carry on any other business, whether manufacturing or otherwise, capable of being conveniently carried on in connection with its business or calculated directly or indirectly to enhance the value of or render profitable any of the company's property or rights."

This will indicate that this feature of company law is of more historical than practical interest.

§ **262. Par Value.** Shares ordinarily have a nominal value which is known as the *par value.* This par value may be any amount desired by the incorporators, but is usually $100 a share in ordinary industrial or trading companies, while mining and other highly speculative shares are usually of smaller par value—often $1.00 a share. Obviously this par value being an arbitrary and fixed figure will not be the *real selling value* of the shares. The amount which a shareholder can obtain when he desires to sell his shares will be more or less than the par value depending on whether the company is successful or not, as well as on the usual factors of supply of and demand for the particular shares he has for sale. It is a general rule of company law that a company shall not sell its shares for less than their par value. Exceptions are made to this general rule in some of the Companies Acts, however. For instance, under the Ontario Act a mining company may sell its shares for less than their par value. In cases where this is permitted the shares are said to be sold *at a discount.* While a company cannot ordinarily sell its shares at a discount, nothing prevents it from disposing of them *at a premium.* The original intention in fixing a par value for shares and providing that they must be sold for at least par was to insure that a company received full value for all shares issued. The law has not had that effect, however, and has only resulted, in many cases, in unreasonably high values being placed on assets received by the company in exchange for shares. (See § 278 on Watered Stock.) The result has been that there is a tendency to permit companies to issue shares having *no par value* and the Dominion Companies Act now permits such shares to be issued.

If the student will turn to Illustration No. 171, showing the form of Letters Patent, he will find the following clause contained therein :—

> " The Capital of the Company to be One Hundred Thousand Dollars, divided into One Thousand shares of One Hundred Dollars each."

This clause in the Letters Patent fixes the par value of the shares at $100 each.

§ **263. By-Laws—Supplementary Letters Patent.** It is a general provision of company law that any by-laws which may be passed to govern the affairs of the company must not be contrary to law (including the Companies Act) or to the provisions contained in the Letters Patent (or Memorandum of Association). This means that such matters as :—

1. The name of the company,
2. The powers of the company,
3. The authorized capital stock and the par value of the shares,
4. The head office of the company,

and any other matters that may be set out in the Letters Patent cannot afterwards be varied by by-law unless " *Supplementary Letters Patent* " are obtained (or a Supplementary Memorandum of Association filed). These can easily be obtained for any legitimate purpose, however.

§ 264. Capital Stock. The Capital Stock of a company is the amount of the total number of its shares multiplied by their par value. *Capital Stock* should not be confused with *Capital*. *Capital* means, in company accounts as in other accounts, the excess of assets over liabilities. At the exact date of the organization of a company, the Capital and the Capital Stock would be the same figure (providing the shares had not been sold either at a premium or at a discount) but as soon as the company commenced business the Capital would be more or less than the Capital Stock by the amount of the profits or losses to date.

§ 265. Authorized Capital Stock. The amount of Capital which is set out in the Letters Patent or Memorandum of Association is termed the "*Authorized Capital Stock,*" and as the name implies is the total amount which the company is authorized to issue.

§ 266. Subscribed Capital Stock. That part of the Authorized Capital Stock which has been subscribed for and the subscriptions accepted is termed the "*Subscribed Capital Stock.*"

§ 267. Paid-Up Capital Stock. While a company cannot (except in those cases where it is permitted to by statute) sell its shares at less than par, it is not required to call upon its shareholders to pay in full for the shares subscribed immediately they are allotted. That part of the Subscribed Capital Stock which has been paid for either in cash or other assets is known as the "*Paid-up Capital Stock.*" Share certificates should not be issued until the shares are paid for.

§ 268. Formation of a Company. Persons desiring to form a company should always retain a solicitor to attend to the incorporation. As the method has no bearing on the accounts it is not explained here, but interested readers are referred to any standard work on commercial law.

§ 269. Advantages of Company over Partnership. From the viewpoint of the investor the corporate form of organization has several distinct advantages over the partnership form. These have already been touched upon, but, in order to emphasize them, they may be summarized as follows:—

1. Limited Liability.
2. Division of capital into large number of shares each having small par value facilitates raising capital for company.
3. Relative ease with which investor can dispose of his interest in company by reason of transferable shares.
4. Existence of company not disturbed by death or bankruptcy of individual shareholders.
5. The legal requirements governing companies are on the whole stricter and more equitable than those governing partnerships.
6. The failure of a company does not (as a rule) reflect on the business standing of its individual shareholders to the same extent as that in which the failure of a partnership reflects on the partners.
7. Centralized management by a board of directors.

Looking at the matter from a broader viewpoint than that of the individual shareholder, the development of the corporate form of organization for business enterprises has been of distinct value to the community as a whole. The advantages outlined above have encouraged the public to invest a considerable portion of its savings in shares of joint stock companies, and this has assisted in no small degree in the remarkable growth of commerce which has taken place in the last century.

EXAMINATION, SECTION 19.

Your employers, Messrs. Bennett & Wood, are carrying on business as a partnership. The business is of a rather speculative nature but, on the contrary, offers the possibility of large profits. Mr. Bennett is 73 years of age, while Mr. Wood is quite a young man. The business is short of capital and neither partner is able to invest more. Mr. Bennett has outside business interests and a large connection in the business community. They are considering forming a company to carry on the business and have instructed you to prepare a memorandum setting forth such facts as will assist them in deciding whether to form the company or not. Neither partner has any knowledge of what a company is, both having been associated only with partnerships.

Prepare this memorandum, dealing only with points that are of practical interest and omitting matters of theory.

Section 20

OPENING ENTRIES IN THE BOOKS OF A COMPANY.

If you have carefully studied the previous section you should by now have quite a clear idea of the nature of a company and how it differs from a partnership. It now remains for you to learn the differences in the accounts of a company as compared with those of a partnership. A short study of the entries necessary to open the books of a company will emphasize a number of these special features.

§ 270. **Conditions Affecting Opening Entries.** The opening entries in the books of a company vary according to the circumstances of each particular case, but these circumstances fall into three general classes as follows :—

1. Where a company is incorporated to commence a new business.
2. Where a company is incorporated to take over an existing business and it is decided to open new books for the company.
3. *Where a company is incorporated to take over an existing business and it is decided to use the existing books.

We shall deal first with No. 1 above.

NOTE.—In the illustrations which follow all the opening entries will be Journal entries. This is merely for the sake of simplicity. In practice, of course, some of the entries would be made through the Cash Book but the effect would be identical.

OPENING THE BOOKS OF A COMPANY INCORPORATED TO COMMENCE A NEW BUSINESS.

§ 271. **Subscriptions and Allotments.** When an investor agrees to take shares in a company he is called a Subscriber. It is better to have subscriptions in writing but this is not essential. The Board of Directors of a company are empowered to accept or reject subscriptions for shares. In case they accept a subscription and formally record such action in the minutes of the meeting, the shares are said to be "*allotted.*" The fact that an allotment has been made should be communicated in writing to the subscriber in order that the subscriber may be effectively bound to take the shares. A subscription, duly allotted and followed by a communication of the allotment to the subscriber, makes the subscriber legally liable to take and pay for the shares. This fact forms the basis of the first opening entry.

EXAMPLE.

John Smith subscribes for five shares ($100 each) of stock in a company. The Board of Directors after considering the subscriptions allot the five shares to John Smith, and the Secretary of the company duly notifies him of the allotment.

What Journal entry would you make to record this ?

ANSWER.

Subscribers, General Ledger	*Dr.*	$500.00	
John Smith, Share Ledger		500.00	
To Capital Stock			$500.00
5 shares of stock to-day allotted to John Smith.			

§ 272. **Subscribers Account.** Subscribers Account is to some extent similar to the Accounts Receivable Account, with which you are familiar. There is one difference :—

Accounts Receivable Account shows the total amount due from *customers* on account of sales.

Subscribers Account shows the total amount due from *subscribers* on account of subscriptions.

* The third method described above is not recommended by the authors, but as it is occasionally met with, it is described so that the student may understand it.

§ **273. Capital Stock Account.** The Capital Stock Account shows the total par value of the shares subscribed and allotted. It corresponds to some extent to the Capital Account in an individual or partnership business. There are some marked differences, however, which will be discussed later.

NOTE.—Capital Stock Account is sometimes kept so as to show the Paid-up Capital Stock and sometimes to show the Authorized Capital Stock. These variations are discussed on page 229. For most conditions the third method which we are using is the best, that is to have the Capital Stock Account represent the Subscribed Capital Stock.

§ **274. Original Incorporators.** It is a usual provision of the Companies Acts that before a company may be incorporated the incorporators must enter into an agreement by which they each subscribe for one or more shares in the proposed company. This legal requirement is almost invariably fulfilled by each original incorporator subscribing for one share. As a rule these original subscriptions are *not* afterwards confirmed by a formal allotment of the shares and it is important that this should not result in the entering of them being forgotten. The entry would, of course, be the same as for an allotment.

§ **275. Subscriber Pays for Shares.** When a subscriber pays into the company's treasury the whole or a part of the amount of the shares subscribed for he relieves himself of liability to the extent of his payment. An illustration of the entry follows :—

EXAMPLE.

John Smith pays $250 on account of the $500 stock allotted to him. What would the Journal entry be ?

ANSWER.

Cash	*Dr.*	$250.00	
To Subscribers, General Ledger			$250.00
,, John Smith, Share Ledger			250.00

Check received to-day.

Problems in Opening the Books of a Company incorporated to Commence a New Business.

1. The Canadian Trading Co., Limited, is incorporated by A, B, C, D, and E, each subscribing for one share of stock. On Jan. 31, the Letters Patent have been received, and the following allotments are made :—

F—25 shares
G—20 ,,
H—10 ,,

The par value of the shares is $100 each. All the subscribers but H pay for their shares immediately. H pays 10% on Jan. 31, and 10% monthly until the shares are paid for. Write up the Journal entries to March 31, and from them Ledger accounts required to furnish the following information at that date :—

(*a*) The amounts of the subscribed capital stock.

(*b*) The number of shares subscribed.

(*c*) The amount still due the company on account of shares.

(*d*) The amount of the paid-up capital stock.

In order that you may check your work on the above problem the answer is given hereunder.

JOURNAL ENTRIES.

Jan. 31.	Subscribers, General Ledger		*Dr.*	$500.00	
	To Capital Stock, General Ledger				$500.00
	Subscriptions of original incorporators—				
	A—Share Ledger,	1 share	$100.00		
	B— ,, ,,	1 ,,	100.00		
	C— ,, ,,	1 ,,	100.00		
	D— ,, ,,	1 ,,	100.00		
	E— ,, ,,	1 ,,	100.00		
		5	$500.00		
Jan. 31.	Subscribers, General Ledger		*Dr.*	$5,500.00	
	To Capital Stock, General Ledger				$5,500.00
	Allotments made to-day as follows—				
	F—Share Ledger,	25 shares	$2,500.00		
	G— ,, ,,	20 ,,	2,000.00		
	H— ,, ,,	10 ,,	1,000.00		
		55	$5,500.00		
Jan. 31.	*Cash, General Ledger		*Dr.*	$5,100.00	
	To Subscribers, General Ledger				$5,100.00
	Checks received as follows—				
	A—Share Ledger		$100.00		
	B— ,, ,,		100.00		
	C— ,, ,,		100.00		
	D— ,, ,,		100.00		
	E— ,, ,,		100.00		
	F— ,, ,,		2,500.00		
	G— ,, ,,		2,000.00		
	H— ,, ,,		100.00		
			$5,100.00		
Feb. 28.	*Cash			$100.00	
	To Subscribers, General Ledger				$100.00
	,, H—Share Ledger				100.00
	Check received.				
Mar. 31.	*Cash			$100.00	
	To Subscribers, General Ledger				$100.00
	,, H—Share Ledger				100.00
	Check received.				

LEDGER ACCOUNTS.

Subscribers.

Jan. 31.	Orig. Incorp.	$500.00	Jan. 31.	Cash	$5,100.00
,, 31.	Allotments	5,500.00	Feb. 28.	,,	100.00
			Mar. 31.	,,	100.00
			,, 31.	Balance down	700.00
		$6,000.00			$6,000.00
Apr. 1.	Balance	700.00			

* As explained on page 226, in practice the last three entries would be made in the Cash Book.

Capital Stock.

Mar. 31.	Balance down	$6,000.00	Jan. 31.	5 Shares	$500.00
			,, 31.	55 ,,	5,500.00
		$6,000.00			$6,000.00
			Apr. 1.	Bal., 60 shares	6,000.00

(*a*) Subscribed Capital Stock : $6,000.00.

(*b*) Number of Shares subscribed : 60.

(*c*) Amount still due on account of shares : $700.00.

(*d*) Paid-up Capital Stock : $5,300.00 ($6,000.00 – $700.00).

2. A, B, C, D, and E incorporated the Classic Manufacturing Co., Limited, on June 1, each subscribing for one share. F subscribed for 50 shares, agreeing to pay 50% on allotment and 50% two months thereafter. G subscribed for 25 shares, paying cash on allotment. H subscribed for 50 shares, to be paid for at his convenience within six months after allotment. On June 30 the Board met and allotted all the shares subscribed for. All payments were received as agreed and in addition $500 was received to cover the subscriptions of the original incorporators on July 31. H pays $1,000 on August 15. Write up Journal entries and Subscribers and Capital Stock Accounts to September 30.

3. A, B, C, D, and E incorporated a company subscribing for shares as follows : A, 100 ; B, 200 ; C, 50 ; D, 200 ; E, 50. Each of the incorporators paid for his shares in full. Show Journal entries. Par value of shares, $10 each.

OPENING THE BOOKS OF A COMPANY INCORPORATED TO TAKE OVER AN EXISTING BUSINESS WHERE NEW BOOKS ARE OPENED.

§ 276. Vending Agreement. The entries necessary to open the books of a company which is incorporated for the purpose of taking over an existing business vary in only one particular from those necessary to open the books of a company which proposes to commence a new business. When taking over an existing business there is invariably a contract or agreement by the terms of which the company agrees to buy from the present owner or owners of the business the whole or part of the business, and as a general rule the company agrees to pay for the same in whole or in part with paid-up shares of stock in the company. This agreement is known as the "*Vending Agreement.*" While one Journal entry would suffice to record a Vending Agreement in the books of the company this is usually divided into several entries for the sake of clearness :—

1. An entry crediting the Vendors (those from whom the company is buying the business) with the assets taken over by the company and debiting the various asset accounts.
2. An entry debiting the Vendors with the liabilities assumed by the company and crediting the various liability accounts.
3. An entry debiting the Vendors (in practice made through the Cash Book) with the cash paid to the Vendors by the company in fulfilment of the agreement.
4. An entry debiting the Vendors with the shares of stock issued by the company in fulfilment of the agreement.

Example.

On Dec. 31, 192 , Leonard Bros. enter into an agreement to sell their entire business to Leonard Bros., Limited, in consideration of the issue of 495 shares ($100 each) of capital stock fully paid up and the payment of $500 in cash.

Following is a trial balance of Leonard Bros.' General Ledger :—

Cash	$1,000.00	
Accounts Receivable	9,000.00	
Bills Receivable	5,000.00	
Inventory	30,000.00	
Furniture and Fixtures	10,000.00	
Accounts Payable		$5,000.00
J. A. Leonard—Capital		25,000.00
L. W. Leonard—Capital		25,000.00
	$55,000.00	$55,000.00

How would you enter this agreement in the books of the company ?

ANSWER.

Cash	$1,000.00	
Accounts Receivable	9,000.00	
Bills Receivable	5,000.00	
Inventory	30,000.00	
Furniture and Fixtures	10,000.00	
To Leonard Bros.		$55,000.00
Assets assigned to the company under agreement of Dec. 31, 192 .		
Leonard Bros.	$5,000.00	
To Accounts Payable		$5,000.00
Liabilities assumed by the company under agreement of Dec. 31, 192 .		
Leonard Bros.	$500.00	
To Cash		$500.00
Cash paid Leonard Bros., under agreement of Dec. 31, 192 .		
Leonard Bros.	$49,500.00	
To Capital Stock		$49,500.00
Certificates Nos. 6 and 7, totalling 495 shares issued to Messrs. J. A. & L. W. Leonard in accordance with agreement of Dec. 31, 192 .		

§ 277. **Goodwill in a Vending Agreement.** It is not an uncommon occurrence for a company under a Vending Agreement to issue to the Vendors a greater amount of capital stock (or cash) than the value of the tangible assets taken over after deducting the liabilities assumed. Where this is done it can only be assumed that the extra amount is to cover the Goodwill of the old business.

EXAMPLE.

Referring to the previous question, what would the entries be if the company had agreed to pay 595 shares of stock and $500 in cash for the business ?

ANSWER.

Cash	$1,000.00	
Accounts Receivable	9,000.00	
Bills Receivable	5,000.00	
Inventory	30,000.00	
Furniture and Fixtures	10,000.00	
Goodwill	10,000.00	
To Leonard Bros.		$65,000.00
Leonard Bros.	$5,000.00	
To Accounts Payable		$5,000.00
Leonard Bros.	$500.00	
To Cash		$500.00
Leonard Bros.	$59,500.00	
To Capital Stock		$59,500.00

§ 278. **Watered Stock.** The principle of regarding Goodwill as an asset and issuing capital stock in payment for it, as outlined in the previous paragraph, is quite a proper one. Goodwill is a real asset and should be paid for. It is, however, an asset which can hardly be valued and any value placed on it must be more or less arbitrary. This fact has made Goodwill prominent where it is desired to issue "*Watered Stock.*" Watered stock is created when the total amount of a company's outstanding shares is greater than the fair value of the company's net assets after deducting liabilities. It would seem that this condition could only obtain where a company had issued shares without having received anything in return for them, which is legally impossible, since a company cannot legally issue shares for nothing. It must receive some asset in return. *But* the promoters of a company are in a position to place *any value they wish on the assets which are being transferred to a company* under a Vending Agreement. The practice has grown, therefore, of placing an unreasonably high value on Goodwill where it is desired to water stock. For instance, the Goodwill of a business which is being sold to a company is valued at $1,000,000. A fair valuation would be only a fraction of this, but the transaction is quite legal if carried out in a proper manner.

The practice of watering stock does not occur to any great extent in companies having only a few shareholders. It occurs chiefly in those companies whose stock is being sold to the general public. It is done by promoters or insiders chiefly in order that they may obtain a large block of stock for nothing, so that they may have control in the company's affairs. There are other motives, but this is the most important. However, the only result from an accounting point of view is that the company buys its assets under the Vending Agreement at enhanced values, but this enhancement is *usually* in some *intangible* asset such as Goodwill. Where it is an intangible asset that is overvalued the practice of stock-watering does little harm, as the public are not deceived by large values placed on such assets as Goodwill, Patents, Licenses, Franchises, Trade Marks, etc.

§ 279. **Closing the Old Books.** Where a company takes over an existing business and opens new books, in addition to the entries necessary to open the new books, the student should also become familiar with the entries necessary to close the old books. These entries are best illustrated by an example.

EXAMPLE.

Referring to the preceding example (see § 277), give the Journal entries necessary to close the books of Leonard Bros.

ANSWER.

The first entry is that to set up the value of Goodwill. As this is in effect a profit to the partnership it must be divided between the partners in the same proportions as other profits are distributed—in this case let us say equally.

Goodwill	$10,000.00	
To J. A. Leonard		$5,000.00
,, L. W. Leonard		5,000.00
Placing a value on Goodwill in accordance with the agreement by which the business is sold to Leonard Bros., Ltd.		

Next close all the Asset and Liability accounts.

Leonard Bros., Ltd.	$65,000.00	
To Cash		$1,000.00
,, A/cs Receivable		9,000.00
,, Bills Receivable		5,000.00
,, Inventory		30,000.00
,, Furniture and Fixtures		10,000.00
,, Goodwill		10,000.00
Assets sold to Leonard Bros., Ltd., under above agreement.		
Accounts Payable	$5,000.00	
To Leonard Bros., Ltd.		$5,000.00
Liabilities assumed by Leonard Bros., Ltd., under above agreement.		

Next make the entry for the shares received.

NOTE.—It is customary for the Vending Agreement to specify a $500 cash payment to the vendors. The vendors upon receiving this check from the company simply endorse it and pay it back into the company where it acts as payment of the shares of the five original incorporators. What the vendors really receive is the shares of the original incorporators as soon as they cease to be shareholders, which is usually immediately after the organization is complete. This is what happened in the present instance.

J. A. Leonard	$30,000.00	
L. W. Leonard	30,000.00	
To Leonard Bros., Ltd.		$60,000.00
For 595 shares received from Leonard Bros., Ltd., and 5 shares from incorporators of that Company. The 600 shares have been divided equally between the partners in full return of their respective capitals.		

NOTE.—If a cash payment had actually been received it would have been divided between the partners the same as the shares.

Problems in Opening the Books of a Company Incorporated to Take Over an Existing Business where New Books are Opened (together with Entries Necessary to Close the Old Books).

1. (Taken from Primary Examination, Institute of Chartered Accountants of Ontario, 1919.)

A company, incorporated under the Ontario Companies Act, has purchased the business of a partnership for the sum of $50,000, payable by the issue of fully paid-up stock for the amount thereof. The company assumes all liabilities. The Trial Balance of the partnership

at date of purchase discloses the following facts: Cash on hand, $651.90; Inventory, $21,916.47; *Plant, $3,842.50; Accounts Receivable, $15,894.30; Bills Receivable, $1,249.95; Accounts Payable, $2,982.44; Bank Overdraft, $897.68; Reserve for Bad Debts, $795.00; Accrued Expenses, $420.00; Depreciation Reserve, $480.00.

Prepare the Balance Sheet of the company as it will appear when the purchase has been completed.

2. (Taken from Primary Examination, Institute of Chartered Accountants of Ontario, 1916.)

The following is the Trial Balance of a partnership business as at the date sold to a limited company:—

Cash in Hand	$100.00	
Cash in Bank	500.00	
Accounts Receivable	5,000.00	
Stock	2,000.00	
Furniture and Fixtures	1,500.00	
Accounts Payable		$1,000.00
Bills Payable		500.00
Reserve for Doubtful Debts		300.00
Capital		7,300.00
	$9,100.00	$9,100.00

The Agreement of Sale states that all Assets of the partnership—except cash in hand and in bank—are to be taken over by the limited company for the sum of $10,000.00, and the assumption by the company of all the Liabilities of the partnership. Make the necessary opening Journal entries in the books of the limited company.

3. (Taken from Primary Examination, Institute of Chartered Accountants of Ontario, 1910.)

Smith & Jones are partners in a wholesale business, Smith's interest being two-thirds and Jones' one-third. The Balance Sheet is as follows:—

Assets.	
Cash	$1,000.00
Merchandise	25,000.00
Accounts Receivable	4,000.00
Bills Receivable	2,000.00
	$32,000.00

Liabilities.	
Bills Payable	$3,000.00
Accounts Payable	2,000.00
Smith's Capital	18,000.00
Jones' Capital	9,000.00
	$32,000.00

They decide to form a joint stock company to be called Smith & Jones, Limited, with an authorized Capital of $40,000.00 divided into shares of $100.00 each. Williams, Adams, and Brown subscribe and pay cash for 10 shares each. Green and Roberts subscribe and pay cash for 1 share each.

* "Plant" is a general term representing machinery and other manufacturing equipment used in a manufacturing business.

Immediately upon its organization the company (Smith & Jones, Limited) purchases Smith & Jones' business, taking over all the assets named in the above Balance Sheet and assuming all the liabilities excepting the two Capital accounts and agrees to pay the firm of Smith & Jones $30,000.00 as the purchase price, payable in shares of the company's Capital Stock. As the surplus (Capital accounts) shown on the Balance Sheet of the firm is only $27,000.00, $3,000.00 of the purchase price paid by the company would of course be for Goodwill.

(*a*) Make the necessary Journal entries to close the books of the firm, going through all the steps which would properly take place up to the division between Smith & Jones of the last remaining asset on the books after transferring to the company their business.

(*b*) Make the necessary Journal entries to open the books of the company showing how the shareholders' accounts are kept as well as the other accounts.

NOTE.—The student may omit the shareholders' accounts, which we have not dealt with as yet.

4. (Taken from Primary Examination, Institute of Chartered Accountants of Ontario, 1915.)

Jones & Brown, retail storekeepers, who are now partners, profits being divided equally, decide to form their business into a limited company as at December 31, 1914. The profits for the year 1914 are to be added to Jones & Brown's Capital Accounts before the new company is formed. They are each to take stock in the new company for their capital invested in the partnership, all the Assets and Liabilities being taken over by the new company and nothing to be allowed for Goodwill. Three new shareholders come into the limited company, who each pay in $100.00 for Capital Stock.

(*a*) Prepare Trading, Profit and Loss Account, and Balance Sheet of the partnership.

(*b*) Make all entries in partnership books re sale of business to the new company.

(*c*) Make Journal entries to open books of the limited company and prepare a Balance Sheet of the limited company.

TRIAL BALANCE OF PARTNERSHIP.

December 31, 1914.

Accounts Receivable	$7,600.00	
Accounts Payable		$450.00
Bank	1,800.00	
Brown, Capital Account		6,000.00
Cash	50.00	
Expense Account, including Salaries, etc.	27,500.00	
Inventory Merchandise, Dec. 31st, 1913	8,000.00	
Jones, Capital Account		4,000.00
Purchases	25,000.00	
Real Estate	10,500.00	
Sales		70,000.00
	$80,450.00	$80,450.00

Inventory Merchandise on hand, December 31, 1914, $7,500.00.

ENTRIES IN THE BOOKS OF A COMPANY INCORPORATED TO TAKE OVER AN EXISTING BUSINESS WHERE THE EXISTING BOOKS ARE USED.

§ 280. Differences in Entries. It is really less work to use the existing books than to open new books, but it was considered important that the student learn how to open a new set of books before he attempt the work of altering an existing set of books and this is, consequently, the last method to be considered.

The first point for the student to learn is that the actual facts regarding the organization of a company are not altered whether the existing or new books are used, consequently *the resulting Trial Balance after the entries are made must be identical* whether old or new books are used.

The next point is that the only entries which are at all changed are the entries for the Vending Agreement. The ordinary entries for allotments and payments of capital stock are obviously unaltered as they have nothing to do with the old business.

The entries necessary to record the Vending Agreement may be condensed in the following manner :—

1. As all the assets are at present entered in the Ledger the first Journal entry for the taking over of the assets can be omitted with one exception :

If a value is placed on Goodwill greater than that showing in the existing books then an entry must be made as follows:

Goodwill	\$- - -.- -	
To Partner A		\$- - -.- -
,, Partner B		- - -.- -

to increase the Goodwill Account to the amount at which it is valued by the Vending Agreement.

2. As the liabilities are at present in the Ledger the second Journal entry for their assumption by the company may be omitted.

3. After the entry adjusting Goodwill is made the balances of partners' accounts will, when added together, show the amount to be received by the partners in return for their interest in the business. The only remaining entry necessary is to debit the partners and credit Capital Stock for the shares issued to the partners, when the partners' accounts will balance. Of course, if the business was partly paid for in cash, Cash would be credited instead of Capital Stock.

Example.

Referring again to the previous example (see § 277), give the Journal entries necessary to open the books of the company if the existing books of the partnership are used.

Answer.

First there is the entry to set up the valuation placed on goodwill, which is identical with that made in closing the books of a partnership where new books are opened for the company (see page 232).

Goodwill	\$10,000.00	
To J. A. Leonard		\$5,000.00
,, L. W. Leonard		5,000.00

Then an entry for the payment of cash and the issue of Capital Stock by which the partners' accounts are settled (compare with the last two entries on page 232).

J. A. Leonard	\$30,000.00	
L. W. Leonard	30,000.00	
To Cash		\$500.00
,, Capital Stock		59,500.00

Problems in Converting the Books of a Partnership into Those of a Company.

1. Referring to Problem No. 2, page 229, what would the Journal entries be if the existing books were used ?

2. Referring to Problem No. 3, page 229, what would the Journal entries be if the existing books were used ?

EXAMINATION, SECTION 20.

1. What does the balance of Subscribers Account represent ?
2. Does the Subscribed Capital Stock of a company show in the Ledger ? If so, what account shows it ?
3. How would you arrive at the Paid-up Capital Stock from a company's Ledger ?
4. What is a Vending Agreement ?
5. A promoter is forming a company to take over the business which he has been conducting as an individual, paying for same in Capital Stock. The business has net tangible assets of $125,000, and has been operated for less than one year. The company is to sell $300,000 Stock to the general public to provide funds for extension. The promoter fears that by doing this he will lose control of the company, as the public will hold 3,000 shares and he will have only 1,250. Can he retain control ? How ? What is the term given to the process ?
6. Can a manufacturing or mercantile company sell its shares for less than par ?
7. A company is taking over a partnership business. It opens new books. If it had used the old books, would the Trial Balance after making the opening entries be any different from that taken from the new books ?

The following review questions are taken from the Primary Examinations of the Institute of Chartered Accountants of Ontario :—

8. You are bookkeeper for a concern and have closed the Cash Book for the month. In checking up the bank account you find that the bank has made a charge for interest on overdraft which does not appear in the Cash Book, and has omitted to credit a deposit. There are four outstanding checks. Prepare a proper bank reconciliation Statement, using your own figures.
9. What do you consider the best method of handling Petty Cash ? State your reasons.

Section 21

TRANSACTIONS FOR MONTH OF JANUARY.

The books to be used are as follows :—

Principal Books :—

1. Sales Record (L. L. Manifold Billing—adapted to Departmental Accounts).
2. Purchase Journal (analysed form—adapted to Departmental Accounts).
3. Cash Book (New).
4. Bills Payable Book (same form as last month).
5. General Journal (New).
6. General Ledger (same form as last month).

Subsidiary and Auxiliary Books :—

1. Transfer Register (New).
2. Share Ledger (New).
3. Sales Ledger (same as last month).
4. Purchase Ledger (same as last month).
5. Expense Ledger.

For the benefit of any who may not have studied the first part of this text, the following are the Trial Balances, etc., of Adams & Gordon as at December 31, 19 , after closing the books :—

GENERAL LEDGER.

Accounts Receivable	$11,670.90	
Accounts Payable		$10,151.37
George Adams—Capital Account		30,000.00
George Adams—Current Account		5,465.22
Advertising (Advertising Materials on hand)	43.00	
Bills Payable—Trade		85.00
Bills Payable—Bank		3,000.00
Bills Receivable	3,498.88	
Buildings	12,000.00	
Buildings Depreciation Reserve		60.00
Cash (including Cash in Bank $2,074.80)	2,174.80	
Cases (on hand)	19.75	
Delivery Equipment	1,882.00	
Delivery Equipment Depreciation Reserve		150.56
Furniture and Fixtures	933.50	
Furniture and Fixtures Depreciation Reserve		61.85
Goodwill	5,000.00	
Henry Gordon—Capital Account		15,000.00
Henry Gordon—Current Account		2,732.61
Insurance	168.00	
Interest on Mortgage (accrued)		90.00
Interest (accrued on Bills Receivable)	6.69	
Land	4,000.00	
Light, Fuel and Water (Coal on hand)	84.00	
Merchandise Inventory	31,305.60	
Mortgage Payable		6,000.00
Office Supplies (on hand)	31.60	
Petty Cash Fund	50.00	
Reserve for Bad Debts		153.11
Traveller's Salary (prepaid)	20.00	
Warehouse Supplies (on hand)	61.00	
	$72,949.72	$72,949.72

SALES LEDGER.

C. R. Andrews	$1,970.00
Henry Bell & Co.	829.50
R. Brown	363.00
Davis & Bell	607.50
A. R. Dow	426.50
C. E. Mann	3,158.50
Geo. Miller	1,526.00
Geo. R. Moore	409.00
Robert Morrison	1,970.50
Peoples Stationery Co.	38.40
J. D. Russell & Co.	160.00
Russell & Brown	212.00
	$11,670.90

PURCHASE LEDGER.

Canadian Importing Co.	$800.00
Commercial Text Book Co.	1,259.00
Dominion Pencil Co.	2,006.00
Patterson & Co.	275.00
S. S. Stafford	750.00
D. Spaulding	5,061.37
	$10,151.37

INSURANCE IN FORCE.

On Stock.		*Amt. of Policy.*	*Expires.*	*Premium.*	*Unexpired.*
Policy # 43267	One-year policies.	8,000	May 1, 19 .	96.00	32.00
Policy # 74321		8,000	Aug. 1, 19 .	96.00	56.00
Policy # 92631		4,000	Oct. 1, 19 .	48.00	36.00
On Building.					
Policy # 92632	Three-year policy.	4,000	Oct. 1, 19 .	48.00	44.00
					$168.00

BANK RECONCILIATION.

Bank Balance per Bank Pass Book		$3,353.22
Less Checks outstanding :—		
# 159	43.12	
# 162	12.50	
# 169	754.80	
# 170	468.00	
		1,278.42
Difference being True Bank Balance		2,074.80
Add Cash on Hand		100.00
Total being True Cash Balance per Cash Account		$2,174.80

§ **281. Columnar Journals.** In your practice on Controlling Accounts for the Purchase and Sales Ledgers you found that *with one exception* all the additional postings necessary to provide Controlling Accounts in your General Ledger were postings of totals, and consequently did not materially increase the volume of work necessary to keep the books ; also that these Controlling Accounts were very valuable in that they enabled a Trial Balance to be taken off from the General Ledger alone besides facilitating the separate proving of the Subsidiary Ledgers. The exception referred to is the Journal from which you found it necessary to make a double posting (one to the Controlling Account and one to the Subsidiary Ledger Account) for every entry which affected a Subsidiary Ledger. It will be obvious that, in the case of any business which has a large number of Journal entries, this necessity for a double posting would prove a serious drawback to the adoption of Controlling Accounts. It is true that few concerns have more than a small number of Journal entries where the books are kept in accordance with modern methods. Nevertheless, some firms have occasion for a large volume of Journal entries, and to meet the requirements of these the Columnar Journal has been devised. Two alternative forms of Columnar Journal are illustrated (see Illustrations Nos. 174 and 175). It will be noted that besides having special columns for the Controlling Accounts, the Columnar Journal is equipped with columns for several other accounts which result in a saving in posting in that it is necessary to post only the totals. The first four specimen entries shown in Illustration No. 174 are entries which you made in your December work in the simple style Journal. Turn these entries up and compare them with those in the illustration. Also carefully study the remaining entries shown in the illustration, which have no relation to your work but which illustrate the uses of a Journal. You will note that there are ten General Ledger postings from the Columnar Journal which is illustrated. If you will make corresponding entries in the form which you have previously been using, you will find that sixteen General Ledger postings are necessary. On the contrary, while the Columnar Journal undoubtedly reduces the number of postings, it is necessary to add and balance a Columnar Journal. Consequently, it will be found that the Columnar Journal only results in a real saving of time when there is a considerable volume of entries. Otherwise the reduction in the number of postings would be easily offset by the additional time required to add and balance the Columnar Journal. In order that the student may have practice in using a Columnar Journal, the form shown in Illustration No. 174 will be used in writing up the transactions for January.

§ **282. Expense Ledger.** There is a constant tendency in present-day business to require the accountant to submit much more detailed statements of expense than was formerly the practice. These detailed statements enable the management to detect unnecessary expenditures and thus increase the profit of the concern by eliminating the unnecessary items. Not only are expense analyses required in greater detail but often the accountant is required at different times to group the various expense items in more than one manner. For instance, the manager may wish data on the cost of insurance. You provide him with an analysis of the cost of insurance as follows :—

Insurance Premiums on Buildings	$......
Insurance Premiums on Stock	......
Insurance Premiums on Equipment	......
Insurance Premiums on Trucks	......
Workmen's Compensation Insurance	......
Etc.	......
Etc.	......
Etc.	......
	$......

December 19–

DATE		ENTRY & EXPLANATION	✓	SUNDRIES DR.	SUNDRIES CR.	ACCOUNTS REC. DR.	ACCOUNTS REC. CR.	ACCOUNTS PAYABLE DR.	ACCOUNTS PAYABLE CR.	INTEREST DR.	INTEREST CR.	EXPENSE DR.	BILLS REC. CR.
19– Dec	4	Davis & Bell	✓			571 50							
		To Bills Receivable											571 50
		Acceptance returned unpaid											
"	15	C R Andrews	✓			1969 50							
		To Bills Receivable											1969 50
		Acceptance returned unpaid											
"	19	C R Andrews	✓			12 38							
		To Interest									12 38		
		Interest on renewal											
"	20	Davis & Bell	✓			1 79							
		To Interest									1 79		
		Interest on overdue acct											
"	21	Patterson & Co	✓					10 50					
		To Patterson & Co	✓				10 50						
		Sale to Patterson & Co chgd to Sales Ledger - have contra a/c in Pur. Led											
"	22	Interest								5 60			
		To W J Gray	✓						5 60				
		Int on delayed pymt overlooked by us											
"	23	Furniture & Fixtures	✓	50 00									
		To Repairs to Equipment	✓		50 00								
		Motor for adding machine chgd to Repairs in error (see Inv #26)											
"	31	Expense (Stationery)										65 00	
		To Grand & Wilson	✓						65 00				
		Dec. staty a/c arrived after Dec Pur. Journal had been closed											
				50 00	50 00	2555 17	10 50	10 50	70 60	5 60	14 17	65 00	2541 00
						(L)	(L)	(L)	(L)	(L)	(L)	(L)	(L)

Illustration No. 174

Columnar Journal

December 19—

ACCOUNTS DR.						ACCOUNTS CR.				
INTEREST	EXPENSE	ACCOUNTS PAYABLE	ACCOUNTS RECEIVABLE	SUNDRIES	DATE ENTRY & EXPLANATION	SUNDRIES	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	BILLS REC.	INTEREST
			571.50		Davis & Bell Bills Rec				571.50	
					Acceptance returned					
					unpaid					

Illustration No. 175

Another form of Columnar Journal

A short time afterwards he may be studying Delivery Costs and you are expected to furnish him with complete data on that phase of the expenses. You probably furnish him with an analysis along the following lines :—

Chauffeurs' Wages	$......
Repairs to Trucks	......
Gas and Oil	......
Insurance Premiums on Trucks	......
Horse Feed	......
Etc.	......
Etc.	......
Etc.	......
	$......

You will note from the above that when the manager is studying insurance he wants to know about the cost of insuring trucks, and when he is studying delivery costs he also wants to know about the cost of insuring trucks. *An efficient manager then will desire very detailed statements of expenses and he will also want the items in these grouped in various classes at different times.*

It will be obvious that if you provide your analysis of expenses in the form of separate accounts in the General Ledger (as you have been doing) you will have considerable difficulty in preparing the expense statements that are expected in a well-managed business. You will either have to have so many expense accounts in the General Ledger that it will be cumbersome, or you will constantly find it necessary to analyse the few expense accounts you keep. Either method involves labor and trouble.

To meet the above objections, many accountants keep but one Expense Account in the General Ledger, but this account is a Controlling Account for a separate Expense Ledger, in which the expenses are analysed in full detail. This Expense Ledger is kept in various forms, but is seldom kept on sheets of any orthodox Ledger ruling. The most frequent method is to keep the Expense Ledger on analysis sheets, the totals of which agree with the Expense Account in the General Ledger. Analysis sheets are sheets having a large number of money columns. The sheets should be either bound or punched to fit a loose-leaf binder so that they will form a permanent record. The type of Expense Ledger which you will use will consist of thirteen analysis sheets—one for each month and a summary sheet on which the monthly totals are summarized and the yearly total ascertained. Illustration No. 176 shows a section of a monthly sheet, while a section of the annual summary sheet is shown in Illustration No. 177. It will be obvious from a study of the illustrations that it is possible to have, within reason, as much detail as desired in the Expense Ledger without materially adding to the work of the bookkeeper. In addition to providing the detailed analysis in a simple manner, the use of the Expense Ledger has another advantage. As there is only one Expense Account in the General Ledger there will, in most cases, be quite a number of entries to post to it. Having but one Expense Account, however, enables the Purchase Journal, Cash Book, and General Journal to be ruled with special columns for "Expense" so that the number of postings may be reduced to a minimum. For books ruled with special columns see Illustrations No. 174, No. 178, and No. 182.

INSTRUCTIONS.

The student will follow the plan outlined above during this and subsequent months. To commence, make a Journal entry closing the balances in the following accounts to General Expense Account :—

Advertising.
Interest (but not Mortgage Interest).
Light, Fuel, and Water.
Office Supplies.
Travellers' Salaries.
Warehouse Supplies.

Insurance and Interest on Mortgage will not be closed for reasons that will be explained later. As it is only desired to teach the student the method of keeping an Expense Ledger, the classification of expenses in the Expense Ledger will be the same as the one you have been using. In actual practice, the classification is worked out in considerably greater detail, but it is not necessary to have the detail in order to learn the method.

...enses for February 19—

POSTAGE		TELEGRAMS		TELEPHONE		SUMMARY		
5	00	6	42	27	50	Telephone	29	15
10	00			1	65	Telegrams	6	42
4	00			29	15	Postage	19	00
19	00					Rent	200	00
							763	46
						Bal Exp. a/c Feb 28	1432	90
						" " " Jan 31	669	44
						Total for Feb as above	763	46

Illustration No. 176 Monthly Expense Analysis Sheet

Expense Analysis for Year Ending

NATURE OF EXPENSE	MONTH OF JANUARY		MONTH OF FEBRUARY		TOTAL TO FEB. 28		MONTH OF MARCH		TOTAL TO MARCH 31	
Postage	25	00	19	—	44	—	23	50	67	50
Telegrams	2	60	6	42	9	02	5	40	14	42
Telephone	24	50	29	15	53	65	26	25	79	90
Unclassified			2	—	2	—		50	2	50
Totals	*669	44	763	46	*1432	90	705	43	*2138	33

Illustration No. 177 Yearly Expense Analysis Sheet

* The items marked with the asterisks agree with the balances of the Expense Account at the dates mentioned

Cash Journal April 19-

Date		Check No	√	Sundries DR	Sundries CR	Bills Payable DR	Acct's Rec. CR	Sales Disc't DR	Expense DR	Interest DR	Exchange DR	Bank DR	Bank CR
Apr. 1	Cash-Bal from last mo.		√		150 -							150 -	
2	National Woodworking Co. a/c		√				490 -	9 80					
2	Subscribers (Jas Henderson)		√/√		500 -						60	979 60	
2	Imperial Paper Co. BP#261					482 -							482 -
6	Office Salaries	66							150 -				150 -
7	Dominion Phono Co. 10 d dft						250 -						
7	W. H. Anson & Co. 60 d dft						670 -			4 20		915 80	
8	Bank Bills Pay Note Chgd		√	6000 -									6000 -
9	Travelling Exp. - Jones	67							50 -				50 -
				8500 -	956 50	5650 42	9423 95	142 33	2149 50	56 43	23 42	10205 60	16347 25
30	Sales Disc. Total for Mo.								142 33				
30	Interest " " "								56 43				
30	Exchange " " "								23 42				
				8500 -	956 50	5650 42	9423 95		2371 68			10205 60	16347 25
						L	L		L			L	L

Illustration No. 178

Another form of Cash Journal

§ 283. Bank Account. In the work of Part I, the bank balance has been treated as a component part of the cash balance and the cash on hand, as shown by the balance of the Cash Account in the Ledger, usually was partly in the bank and partly in the office. That part which was in the bank was determined from columns headed "Deposits" and "Checks" in the Cash Book, but these columns were merely memorandum columns and were not posted to the Ledger. This method was simple and easy for the beginner to understand. It is also quite a practical method but is not commonly used in business and, as it is the desire of the authors to make this text as practical as possible, we will now adopt the more common method of having separate accounts for "Cash" and "Bank." The balance of the Cash Account will now show the cash on hand in the office, but will not include the cash in the bank. The Bank Account will become a personal account with the company's bankers. If it shows a debit balance it will represent the balance to our credit or owing from the bank; if a credit balance, the overdraft or balance owing to the bank.

While the Cash Account may be kept as described above, in practice it is usually eliminated entirely by making up a deposit for all cash on hand on the last day of each month. The bank may not receive and credit this deposit until the first of the following month, in which case it is shown as an outstanding deposit in the Bank Reconciliation, its effect, of course, being just the reverse of an outstanding check.

In order to open the Bank Account, make a Journal entry transferring the bank balance as at Dec. 31 from the Cash Account to the new Bank Account.

§ 284. New Form of Cash Journal. In order that the student may have practice on as many different books as possible, a new form of Cash Journal will be used this month. Illustration No. 178 shows the ruling, specimen entries, and closing. It will be noticed that it follows very closely in form the Columnar Journal. In fact it is nothing more than a Columnar Journal with columns adapted to cash transactions. The form provides columns for Bank Dr. and Cr. necessary for the new method of keeping the Bank Account and also provides for a single posting for all debits to Expense Account. It will also be noticed that, differing from the Cash Books to which you have been accustomed, Receipts and Payments are not shown on separate sides of the book but are mixed. They are easily distinguished, however, as all Receipts result in Bank Debits, and all Payments are Bank Credits. The chief merit of this form is that there is no waste space as there must be in a two-sided book where either Receipts or Payments usually greatly predominate in number of entries.

NOTE.—The specimen entries in the illustration bear no relation to the business of Adams & Gordon, Limited.

The business of Adams & Gordon has proved so successful that the partners have decided to make some extensions in the near future, having immediately in mind a greater development of the business in Text Books, for which there appears to be a good demand. Other extensions of the business are also contemplated although not actually decided on. As these extensions will require more capital they have decided to form a company. It is also anticipated that when the extensions referred to are completed, it will be necessary to promote some of the employees to more responsible positions, and it is considered advisable to allow these employees to purchase shares of the company if they desire to do so. This, they expect, will have the effect, not only of furnishing part of the additional capital required, but also in the employees taking a greater interest in their work on account of having a personal interest in the success of the company. However, as the capital invested by the employees may not be sufficient to finance the proposed extensions, the partners have decided to form a public company so that it will be possible to raise further capital, if necessary, by selling shares to the general public.

§ 285. Classes of Companies. Two classes of companies are recognized under most Companies Acts:—

1. Public Companies.
2. Private Companies.

Private Companies are subject to certain restrictions as follows :—

1. The right to transfer shares may be restricted ;
2. The number of shareholders (other than employees of the company) is limited to fifty ;
3. Any invitation to the public to subscribe for shares or other securities of the company is prohibited ;

but, on the contrary, they are freed from certain other legal requirements which must be complied with by Public Companies *Public Companies* are all companies other than Private Companies.

Most companies which expect to have but a few shareholders, and who have no need to seek outside capital, find it advantageous to organize as Private Companies, while companies which expect to obtain their capital from the general public are organized as Public Companies.

Your employers have instructed you that they propose to promote you to the position of Secretary-Treasurer of the new company ; also that you will be permitted to purchase not more than ten shares of stock if you desire to do so. You are further instructed to proceed with the organization of a company along the lines outlined, with an authorized capital of $100,000.00.

After looking into the matter of incorporating the company, you have instructed your solicitors, Messrs. Jones & Simpson, to incorporate the company under the Provincial Companies Act on your behalf. You have specified to them :—

1. That the company is to be known as " Adams & Gordon, Limited."
2. That its head office is to be situated in (your address).
3. That the Authorized Capital is to be $100,000.00 with shares of $100 par value.

§ 286. The Corporate Name. In Canada a company having a share capital must have the word " Limited " as the last word of its corporate name. This serves to put the public on notice that it is a Limited Liability Company.

Jan. 2. Mr. Jones, of Jones & Simpson, has telephoned to-day that he has received the Letters Patent of Adams & Gordon, Limited, from the Provincial Secretary, and is ready to proceed with the organization. Upon calling at his office he hands you the Letters Patent (shown in Illustration No. 171), together with a draft of the general by-laws. You read these and they appear to be quite in order. Among the papers you find the following subscription for shares, and Mr. Jones informs you that it was necessary to have at least five subscribers for one share (or more) each, before the Letters Patent could be obtained. He and his partner, together with three assistants, had consequently subscribed for one share each, but these shares will be transferred to Adams & Gordon as soon as the organization of the company has been completed.

Subscriptions of Original Incorporators :—

John Robert Jones—1 share.

James Edward Simpson—1 share.

Charles George Robinson—1 share.

Marjorie Catherine Thomas—1 share.

Mary Jane Smith—1 share.

Make the entry for the above subscriptions.

NOTE.—It was impracticable to illustrate the Letters Patent or Memorandum of Association as they would appear in every province, so Ontario Letters Patent have been illustrated as typical.

Mr. Jones asks you to furnish him with particulars of the proposed contract by which the business of the partnership is to be purchased by the company. You take this up at once with Mr. Adams and Mr. Gordon, and point out that the total capital of the partnership

is $53,197.83. After discussing the matter with the partners they come to the conclusion that the fair value of the business to-day is $60,000, and that they think they should get that much stock in the new company for the business. They ask you if this is possible, and you report that it is quite possible to value Goodwill at more than $5,000 for the purpose of sale, and that it is merely a matter of increasing the value of this asset to an amount sufficient to show a surplus of Assets over Liabilities of $60,000. You are instructed to do this and to arrange for a contract by which the business of the partnership shall be sold to the company for $60,000. Make the entry increasing the value of Goodwill.

Jan. 2. You take the matter of the contract up with the solicitor again and he drafts an agreement, the substance of which is as follows :—

1. Adams & Gordon transfer all their assets to Adams & Gordon, Limited.
2. Adams & Gordon, Limited, agree to assume all the liabilities of Adams & Gordon, not including the partners' capital or current accounts.
3. Adams & Gordon, Limited, agree to pay for the above the sum of $60,000, of which $500 is payable in cash and the balance of $59,500 is to be paid by the issue of 595 shares of the Capital Stock of Adams & Gordon, Limited, either to Adams & Gordon or to their nominees.

A meeting of the shareholders of the company is called (the only shareholders as yet are the five original incorporators), and the agreement outlined above is approved by them. After being approved it is signed both by Adams & Gordon, and by Adams & Gordon, Limited. From now on, Adams & Gordon have ceased to carry on the business and all business should be transacted and all documents signed in the name of the company.

Make the entry for the above agreement, crediting Adams & Gordon (partnership), who will be debited as the shares are issued to the partners or their nominees.

Jan. 2. After making arrangements with the bank to transfer the account to the name of the company, you deposit all cash on hand.

NOTE.—When posted to the credit of Cash Account this will close the account.

Jan. 2. Issued the company's check (No. 1) to Adams & Gordon for $500 in part fulfilment of the above agreement.

Jan. 2. Adams & Gordon have endorsed the above check back to the company, stating that they desire it to be applied as payment of the subscriptions of the five original incorporators, whose shares are to be transferred to them (Adams & Gordon). Deposit the check to the credit of the company.

Enter the above payment and receipt in the Cash Book.

Jan. 2. Share certificates issued :—

No. 1. John Robert Jones—1 share.
„ 2. James Edward Simpson—1 share.
„ 3. Charles George Robinson—1 share.
„ 4. Marjorie Catherine Thomas—1 share.
„ 5. Mary Jane Smith—1 share.

Open the Share Ledger and post it to date.

§ **287. Share Ledger.** In a partnership it is quite feasible to have a separate account in the General Ledger to show the investment of each partner. This is possible because of the fact that there are seldom more than a few partners. But one of the chief features of the joint stock company is that there are often a great number of shareholders, so that it becomes physically impossible, in many cases at least, to keep the accounts of individual shareholders in the General Ledger. This fact has made it necessary to have a separate subsidiary ledger known as the *Share Ledger* (*Shareholders' Ledger, Stock Ledger, or Stockholders' Ledger*) in which to record the number of shares held by each shareholder together with the

amount (if any) unpaid thereon. A specimen sheet from a Share Ledger is shown in Illustration No. 179. There are many forms of share ledgers but the form illustrated is one of the best and most frequently used.

In converting the Sales Ledger and the Purchase Ledger into subsidiary ledgers, you found that it was necessary to have a "*Controlling Account*" for each in the General Ledger in order that the accuracy of the postings to the subsidiary ledgers might be proven. If the Share Ledger is to be a subsidiary ledger, and not merely a non-controlled memorandum, it

FORM 230

NAME John Robert Jones SHEET NO

ADDRESS Your Address CALLING Barrister-at-law

DATE		PARTICULARS	CERT NO	TRANSFER NO OR FOLIO	SHARES DR	SHARES CR	SHARES BAL	AMOUNT DR	AMOUNT CR	AMOUNT BALANCE
19– Jan	2	Original Incorporator	1	J18		✓1		100 00		
	2	Cash		C1					100 00	-0-
	2	Allotment		J19		10		1000 00		
	2	Henry Gordon	1	1	1✓					
	5	Cash		C1					500 00	
	5	Geo Adams	9	2		✓25				
	10	Cash		C1					100 00	
	20	Henry Gordon & Self	9	3	25✓					
	20	Self	12	3		10	20			400 00

THE COMMERCIAL TEXT BOOK CO TORONTO

Illustration No. 179 **Share Ledger Account**

Note the check marks to indicate the cancelled certificates

follows that it also must be controlled by the General Ledger. The Share Ledger is somewhat more elaborate than either of the two subsidiary ledgers to which you have been accustomed in that *it shows two different but related facts in each account*. The accounts in the Sales Ledger and the Purchase Ledger showed simply the amount due to the business (if a debit balance) or the amount due by the business (if a credit balance). Each account in the Share Ledger, however, shows or may show :—

1. The number of shares held by the shareholder.
2. The amount unpaid and due to the company in respect of the shares held.

If you will examine the illustration you will find that the form has two distinct sections (really separate accounts) headed "Shares" and "Amount" respectively, which provide for the above composite record. As the Share Ledger shows two different facts in each account, it follows that it can only be controlled by two different controlling accounts in the General Ledger. These controlling accounts are (1) *Capital Stock* and (2) *Subscribers*.

"*Capital Stock*" account will always show a credit balance and that balance will represent the total *par value* of the shares subscribed. If you divide this par value by the par value of each share (usually $100), you will find the total *number* of shares subscribed. Now, if you credit the individual shareholders' accounts in the Share Ledger with the number of shares subscribed for by each individual shareholder, the sum total of the credit balances in

the " Shares " section of the individual accounts in the Share Ledger should equal the total number of shares subscribed as determined from the Capital Stock Account. Of course, shares may be transferred from one shareholder to another, but this will only have the effect of increasing the holdings of one shareholder and decreasing the holdings of another, and will have no effect on the total number of shares subscribed.

The balance of the second controlling account " *Subscribers* " represents, as you already know, *the total amount due from subscribers in respect of subscriptions.* It bears much the same relation to the Share Ledger as the Accounts Receivable Account bears to the Sales Ledger, the only difference being that the Accounts Receivable Account represents the total amount due in respect of *sales.* The entries in the Share Ledger " Amount " section are of exactly the same type as those in the Sales Ledger, except that the original debit posting is made at the time of a subscription for shares instead of as the result of a sale.

§ 288. Posting to the Share Ledger.

1. *Allotments.* In your practice in opening company books you have learned that every allotment is recorded by a Journal entry—Subscribers' Capital Stock. In addition to being posted to the General Ledger accounts, however, this entry should be posted to the individual shareholder's account in the Share Ledger by entering the number of shares subscribed for in the *Shares Cr.* column, and by entering the par value of the shares in the *Amount Dr.* column. (The third Jan. 2 posting in Illustration No. 179 shows the posting for an allotment of 10 shares value $1,000 to J. R. Jones.)

2. *Subscriptions of Original Incorporators* have exactly the same effect and are treated in exactly the same manner as allotments. (The first Jan. 2 posting in Illustration No. 179 shows that J. R. Jones subscribed for 1 share at the time of the incorporation of the company.)

3. *Payments for Shares* are entered in the Cash Book in the ordinary way, and posted to credit of Subscribers' Account. They should also be posted to the credit of the individual shareholder's account in the Shares Ledger in the *Amount Cr.* column. (Illustration No. 179 shows postings for Cash payments on Jan. 2, 5, and 10.)

4. *Issue of Share Certificates.* Simply enter the number of the certificate opposite the entry for the allotment in the column provided. The issue of a certificate is not a transaction which affects the General Ledger in any manner. Share certificates should not be issued until the shares are paid for. (Illustration No. 179 shows that Certificate No. 1 was issued for the one share that was paid for, but there is no certificate number opposite the third Jan. 2 posting as there is still $400 due on account of these 10 shares and, consequently, no certificate has been issued.)

5. *Transfers of Shares.* Explained in § 291.

6. *Shares Issued under Vending Agreement* require the same entry as for allotments, except that as the shares are usually issued as fully paid there is no debit in the *Amount Dr.* column.

19 .

Jan. 2. Adams and Gordon have notified you that they wish to have the 595 shares to which they are entitled under to-day's agreement issued as follows : 400 to George Adams and 195 to Henry Gordon. Mr. Adams wants two separate certificates for his shares, one for 350 shares and one for 50 shares. Mr. Gordon asks you not to issue his certificate until later in the month, as it is possible he may want two or more certificates for his holdings. Issued share certificates as follows :—

No. 7. George Adams—350 shares.

No. 8. George Adams— 50 shares.

Jan. 2. Extract from minutes of Meeting of Board of Directors held to-day :—

"The Secretary reported the receipt of applications for Capital Stock as follows :

John Robert Jones—10 shares,

Student—5 shares,

William Fraser—5 shares ;

after due consideration it was decided to allot shares to the above-named subscribers."

Jan. 2. Certificate received for transfer :—

No. 1. J. R. Jones—1 share—to Henry Gordon—issued new Certificate No. 6.

Register the transfer and post to the Share Ledger.

§ 289. Transfer of Shares. One of the chief features of the corporate form of organization is the relative ease with which investors may buy or sell shares in the company. A shareholder, of course, is not required to buy or sell shares at par value. As the company is not a party to the transaction it has no interest in the price paid, which may be more or less than par.

When a shareholder desires to transfer some or all of his shares he endorses his certificate in the space provided on the back (see Illustration No. 173). The endorsed certificate is then sent to the Secretary of the Company who registers the transfer and issues the new certificate or certificates. Some public companies employ a special transfer officer (usually a trust company) to register transfers of shares. It will be noticed that the transfer form shown in the illustration contains the following clause:—

"... and do irrevocably constitute and appoint .... Attorney to transfer the said stock on the books of the within-named Company."

If the transferor did not appoint an attorney to transfer the shares, he would be required to attend personally at the office of the company and sign the Register of Transfers. In order to avoid this, he may appoint an attorney to sign the Register for him. In practice this space is usually left blank, in which case the Secretary of the company fills in his own name in the space, thus constituting himself the transferor's attorney. The Secretary himself then signs the Transfer Register.

The student will assume that he has been appointed attorney in the case of all transfers he may be required to register.

§ 290. Transfer Register. Illustration No. 180 shows the form of Transfer Register which is perhaps most commonly used. Three typical transfers (which have no relation to Adams & Gordon, Limited) are filled in.

Transfer No. 1 is a transfer of 10 shares of Common Stock from Arthur Hopkins to Henry Arthur. Hopkins hands in a certificate for exactly 10 shares.

Transfer No. 2 is a transfer of 25 shares of Preference Stock from Mary Barlow to Jas. Johnson. Miss Barlow, however, hands in a certificate for 50 shares, so must personally appear as a transferee for the balance of 25 shares.

Transfer No. 3 shows a transfer where John Martin has presented at the same time two certificates for 5 Common Shares each (one from Foote and one from Anson), both endorsed to him. He has been issued one certificate to cover both.

It has been assumed that in the case of transfers No. 1 and No. 3, the attorney space had been left blank and that the author, as Secretary of the company, had signed the Register. In the case of No. 2, Miss Barlow presented the certificate for transfer and signed the Register herself.

The difference between Common and Preference Stock will be taken up later.

Classic Manufacturing Co., Limited

We, the undersigned owners and holders of shares in the Capital Stock of the above Company, for value received, do hereby, by our respective Attorneys, duly appointed, respectively assign such shares of said Capital Stock as in the manner hereunder set forth

GRAND & TOY, LIMITED, TORONTO. L 46 F

No. of Transfer	Date			Common or Preference	Certificate Surrendered		Name of Transferor	Dr. Ledger Folio	Name of Transferee	Address	Certificate Issued		Cr Ledger Folio	No. or Power of Attor'y	Signature of Transferor or Attorney
					Number	Shares					Number	Shares			
1	Jan	5	19-	C	36	10	Arthur Hopkins	√	Henry Arthur	Winnipeg	123	10	√		Frank J. Short
2	Mar	10	"	P	27	50	Mary Barlow	√	Jas. Johnson	Vancouver	66	25	√		
									Mary Barlow	Toronto	67	25	√		Mary Barlow
3	Apr	6	"	C	101	5	Thos. Foote	√							
					93	5	F. J. Anson	√	John Martin	Montreal	124	10	√		Frank J. Short

Illustration No. 180

Transfer Register

§ 291. **Posting the Transfer Register.** The Transfer Register is posted to the Share Ledger only. Items in the "Certificate Surrendered" column are posted to the debit of the "Shares" section of the Share Ledger accounts of the "Transferors"; items in the "Certificate Issued" column to the credit of the "Transferees."

§ 292. **Transfers of Shares Not Paid-Up.** It is seldom that one meets with a transfer of shares not fully paid, for partly-paid shares can only be transferred with the consent of the Directors and then only under certain restrictions. If such a transfer were made, however, the transferor would be credited, and the transferee debited, with the unpaid balance due on such shares at the time the Transfer Register was posted.

§ 293. **Necessity of Registering Transfers.** A transfer of shares does not have to be registered in order to be legal—but the buyer does not receive any of his rights as a shareholder until he does register it. For instance, all notices, dividends, reports, etc., are sent to the registered shareholders. Some public companies close their transfer books for ten days or so prior to paying a dividend, as it is inconvenient to register transfers right up to the date of paying the dividend.

§ 294. **A Stock Market** is a market where shares in public companies and other securities are bought and sold.

Jan. 2. Extract from minutes of General Meeting of Shareholders held to-day :—

"The following were unanimously elected Directors of the Company for the coming year :

George Adams,
Henry Gordon,
Student."

Jan. 2. Extracts from minutes of Meeting of Board of Directors held immediately after above General Meeting :—

"It was decided that officers for the coming year be appointed as follows :

President—George Adams ;
Vice-President—Henry Gordon ;
Secretary-Treasurer—Student.

"After a discussion on the necessity of ascertaining the profit of the business in the text-books separately from the business in stationery now that the company proposes a greater development of the text-book trade, the Secretary-Treasurer was instructed to re-model the accounting system so as to show separately the profits, as nearly as they can be ascertained, of the Text Book and Stationery Departments.

"It was also considered advisable that monthly interim Balance Sheets and Profit and Loss Accounts be prepared in future. The Secretary-Treasurer was instructed to have these ready for consideration at the monthly Board meetings in future.

"The Secretary-Treasurer pointed out that extra work caused by the extension of the business and the consequent necessity for more elaborate accounting would make it necessary for him to have an assistant. He was authorized to employ one."

It was decided that in future the company should take advantage of all Purchase Discounts. To prevent any of these being overlooked, it was decided to write to all creditors who offer cash discounts, asking them in future to draw on the company less discount.

§ 295. **Departmental Accounts.** In practically all concerns that deal in more than one class of goods it is desirable that the management should have information as to the profits of each line or department, otherwise the business as a whole might be earning profits, but one or more departments might be incurring losses without the management being aware of the fact. If accounts are kept so that the Profits or Losses of each department can be ascertained, it is possible to discontinue handling a line of goods which cannot be made to produce a profit.

Briefly, then, any set of accounts which is designed to show either the gross or net profit by departments is referred to as a *Departmental Accounting System*. It is not usually possible to obtain more than the Gross Profit accurately, as some or all of the expenses are of a general nature and cannot be allocated to particular departments. In such cases undistributable expenses are usually allocated on some arbitrary basis, depending on the conditions in each case. If departments have a definite organization under a manager who gives his whole time to his department, Departmental Accounts have another common use, as it is then possible to remunerate the manager, either wholly or partly, in the form of a percentage of the profits of his department.

§ 296. **The Installation of Departmental Accounts** can be best explained by illustrating the installation of the system for Adams & Gordon, Limited. It should be remembered, however, that this company has only two departments—Text Books and Stationery—and that some variations from the plan outlined might be necessary in a business having a large number of departments.

SALES.

If profits by departments are to be shown, then it will be necessary to have a Merchandise Sales Account for each department as follows :—

Merchandise Sales—Text Books.

Merchandise Sales—Stationery.

The present Merchandise Sales Account has shown the Gross Sales and it has been necessary to deduct Rebates and Allowances, Cases and Freight on Sales in order to find the Net Sales. While we might have a Rebates and Allowances Account for each department, there is no particular object in doing this as the total amount of Rebates and Allowances when obtained is of very little practical interest. For this reason our two Sales Accounts in future will be so kept that they will show the *Net Sales* of the respective departments after deducting all returns, rebates and allowances, and without including any amounts charged for cases, or for prepaid freight or express. Now if we are to accomplish this, it will be necessary either to have our Recapitulations of Sales and Credits each in four columns : Text Books, Stationery, Cases, Freight and Express Prepaid ; or to adopt a new form of Sales Record. While there is nothing to prevent the present Sales Record being adapted to Departmental Accounting as outlined above, it is desirable that the student should have experience in as many types of records as is practicable and a new form of Sales Record is to be introduced. This Sales Record is probably the best adapted to Departmental Analysis of any billing system in common use. The Record is used in the following manner : The invoices are typed in the ordinary manner, but are copied on a ruled sheet having special columns to take care of whatever analysis of the sales is desired. A number of invoices can be copied on each sheet and the totals of each extended to the analysis columns. As each sheet is completed it is totalled, and at the end of each month the sheet totals are recapitulated on the last sheet of that month (see Illustration No. 181). Credit Notes are handled in the same manner as Invoices, except that they are usually copied on sheets of a different color from those on which Invoices are copied. Credit Notes are recapitulated (if there is more than one sheet) in the same manner as Invoices and the totals deducted from the Recapitulation of Invoices (as shown in the illustration). The Net Totals for the month are then posted as follows :—

" Amount of Invoice " Column		—Accounts Receivable, Dr.
" Text Books "	,,	—Text Book Sales, Cr.
" Stationery "	,,	—Stationery Sales, Cr.
" Cases "	,,	—Cases, Cr.
" Freight and Express "	,,	—Freight and Express Prepaid, Cr.

This type of Sales Record is often used in connection with typewriters that are equipped with an adding attachment. This enables the totals of the sheets to be obtained mechanically. If the student will study the system outlined above, he will find :—

1. That Text Books Sales and Stationery Sales accounts will now show the net sales of the respective departments.
2. That Cases Account is credited with the proceeds of Cases when sold and will consequently (after bringing in the inventory) show the profit or loss on Cases instead of the cost of them as at present.
3. That Freight and Express Prepaid Account is credited with all items of this nature charged to customers, and should consequently balance if all payments for prepaid freight and express are duly charged to customers.

ADAMS & GORDON, LIMITED. 5

SALES SHEET, MONTH OF JANUARY, 19 .

Details of Invoice	Amount of Invoice	Text Books	Stationery	Cases	Freight & Express
Jan. 29, 19 . No. 194 Robt. Duncan & Co., Hamilton, Ont. G.T.R. 2/30 N/60 50 lbs. Rubber Bands 4.80 240.00 10 gro. Rulers, 12" 24.00 240.00 10 gro. Rulers, 15" 32.00 320.00 Casing 4.00 Freight Prepaid 20.00	824 00		800	4	20
Total Sheet No 5	824		800	4	20
" " " 4					
" " " 3					
" " " 2					
(Credits) " " " 1					
	L	L	L	L	L

Illustration No. 181 Last Sheet of Sales Record, showing method of Recapitulating Sales and Credits

INVENTORIES.

As in the case of Sales two Inventory Accounts will be kept in future :—

Merchandise Inventory—Text Books.

Merchandise Inventory—Stationery.

Make the following Journal entry now to open the two accounts in place of the one you now have :—

Merchandise Inventory—Text Books	\$1,128.81	
Merchandise Inventory—Stationery	30,176.79	
To Merchandise Inventory		\$31,305.60

PURCHASES.

It will also be necessary to open two accounts for Purchases :—

Merchandise Purchases—Text Books ;

Merchandise Purchases—Stationery;

and these accounts should show the net cost of goods bought after deducting returns, rebates, and allowances. It will also be remembered that before we could obtain the total cost of merchandise purchased, we had not only to subtract the balance of the Purchase Rebates and Allowances Account from the Merchandise Purchases Account, but we had to add the Duty and Brokerage and Freight Inward. While there is nothing to prevent our keeping separate Duty and Brokerage and Freight Inward Accounts for each department, this would mean quite an amount of added and relatively unnecessary work in the case of a business having a large number of departments. We will therefore keep the two Purchases Accounts so that they will show the cost of goods purchased for their respective departments after deducting all returns, rebates, and allowances, and adding all freight, duty and brokerage. In order that we may do this in the most convenient manner we shall have to adopt a new form of Purchase Journal (see Illustration No. 182). It will be noticed that a special column is provided in the Purchase Journal for "Freight, Duty and Brokerage." The amount of the freight, duty and brokerage on each invoice (if any) is entered in this column opposite the entry for the invoice and the total cost, which is of course the sum of the invoice amount plus the freight, duty and brokerage, is entered in the column entitled "Total Laid-Down Cost." It is this total which is extended to the various analysis columns, among which are our two accounts for Merchandise Purchases. The total of the "Freight, Duty and Brokerage" column is credited to an account bearing that title and which will take the place of the Freight Inward and Duty and Brokerage Accounts you have been keeping. When payments are made for freight inwards, duty or brokerage, the amounts of such payments are to be charged from the Cash Book to "Freight, Duty and Brokerage," so that this account should balance when all accounts for freight, duty or brokerage are paid. If it does not balance, the credit balance will be a liability for freight, duty or brokerage accounts not paid, while a debit balance would indicate freight, duty or brokerage paid in advance of the receipt of the goods. One of the best methods of handling Credit Notes for purchase rebates, allowances or returns, where they are not frequent, is to enter them in the Purchase Journal in red ink. You will adopt this method in future. In adding the Purchase Journal be careful to *deduct* the red ink items instead of *adding* them (see Illustration).

Expenses and Sundry Revenues. We have now arranged the Ledger so that we have separate departmental accounts for Sales, Purchases, and Inventories. We will now be in a position to ascertain the *Gross Profit* of each department. If we are to determine the *Net Profit,* however, we must have some basis for apportioning the Expenses and any Sundry Revenues we may have (such as purchase discounts). In a highly organized company having separate staffs for each department, the warehouse salaries might be accurately divided, but the staff of Adams & Gordon, Limited, is not organized according to departments. If the salesmen were paid on commission, their remuneration might be accurately divided, but the company pays its salesmen salaries. *None* of the Expenses can be accurately distributed between departments, so that we are forced to apportion the Expenses on some arbitrary basis. Where this condition exists, *it is customary to apportion the Expenses between Departments on the basis of Sales.* As the only Sundry Revenues will probably be Purchase Discounts which are of unimportant amount, they may be apportioned on the basis of Purchases. The apportionment of Expenses and Sundry Revenues is not made in the books as in the case of Sales, Purchases, and Inventories, but is merely brought in when preparing the Profit and Loss Account (see Illustration No. 186).

Following the Board Meeting held to-day, you employed an assistant bookkeeper and turned over to him the following duties :—

1. Invoicing Customers for Goods Sold and Issuing Credit Notes. You, however, will make the extensions to the analysis columns, columnar additions, and recapitulations as described in the paragraph on Departmental Accounts.

NOTE.—In order to relieve the student of the work of billing in which he has now had sufficient practice, copies of all invoices and credit notes on properly ruled sheets will be found with the outfit of books and forms which accompanies this text.

Purchase Journal April 19

DATE		PURCHASED FROM	TERMS	INV. NO.	√	ACCT'S PAY. CR (AMOUNT OF INV.)	FREIGHT DUTY & BROK. CR.	TOTAL LAID DOWN COST	MDSE. PUR. DR. TEXT BOOKS	MDSE. PUR. DR. STATIONERY	EXPENSE DR. DETAILS	√	EXPENSE DR. AMOUNT	OTHER ACCOUNTS DR ACCOUNT	√	OTHER ACCOUNTS DR AMOUNT
19– Apr.	5	Publishers Ltd	2/10 n/30	1	√	550 —	5 60	555 60	555 60							
"	7	Dom. Bindery Co. Ltd	2%10th prox	2	√	672 40	8 —	680 40		680 40						
"	9	Underwood Type Co. Ltd	n/30	3	√	157 50		157 50			Tp. Inspect.	√	7 50	Off. Equip.	√	150 —
"	12	Publishers Ltd	—	4		25 —		25 —	25 —							
"	15	Can. Loose Leaf Co. Ltd	Cash	5	√	342 —	11 40	353 40		341 —	Led. Sheets	√	12 40			
"	16	Am. Book Paper Co. Inc.	"	6	√	205 —	79 60	284 60		284 60						
"	20	Can. Loose Leaf Co. Ltd	—	7		40		40			Led. Sheets		40			
"	30	Gee & Co. Ltd (£260.12.4)	2/30 n/90	8	√	1277 02	21 —	1298 02	1298 02							
"	30	Canada Paper Co. Ltd	Cash	9	√	20 —	1 —	21 —			Wrap. Paper	√	21 —			
						3198 52	126 60	3325 12	1828 62	1306 —			40 50			150 —
						(L)	(L)		(L)	(L)			(L)			

Illustration No. 182

Another form of Purchase Journal

NOTE.—The entries in the illustration have no bearing on the transactions of Adams & Gordon, Limited.

2. Keeping the Petty Cash. Your assistant is to hand in his Petty Cash Sheet monthly together with his vouchers and you will issue him a check for the amount spent.

NOTE.—Details of checks issued for Petty Cash will be given in text in future.

Jan. 2. *Checks issued:* No. 2—Canadian Importing Co., $784 (Disct. taken $16.00); No. 3—Rogers Coal Co., 5 tons Coal at $12.00–$60.00.

Jan. 3. *Certified Invoice Received:* Jan. 2. Canadian Typewriter Co. (your address. 2/10–n/30): 1 Remington Typewriter, wide carriage, with adding attachment, $225.00; less allowed on No. 10 Remington returned, $125.00; Total $100.00.

NOTE.—The typewriter returned was purchased on July 5 last year for $150.00.

§ 297. Replacements of Fixed Assets. In Part I of this book we dealt with the method of providing for depreciation of fixed assets. At that time it was pointed out that depreciation was a loss or reduction in the value of fixed assets due to wear and tear and obsolescence. Sooner or later assets upon which depreciation is provided must be replaced, otherwise there would be no necessity of providing for their depreciation. We have a typical example of this replacement in the above transaction. One of the typewriters which Adams & Gordon had been using had become obsolete owing to the adoption of a new billing system for which the typewriter (while not worn out) was unsuitable. The old typewriter had cost $150, and this amount is included in the Furniture and Fixtures Account. The new machine is costing $225, and the company is being allowed $125 on the old machine, which cost $150, thus showing a loss of $25. The company, however, has provided for this loss by setting up a Furniture and Fixtures Depreciation Reserve of $61.85, which is intended to cover just such losses as this. The $25, therefore, should be charged to the Depreciation Reserve Account. The whole invoice, however, amounts to $100, and while $25 has been disposed of the balance of $75 must be charged to some account. This $75, it will be seen, represents the difference between the cost of the new machine ($225) and the cost of the old one ($150). As the cost of the old machine is still included in the Furniture and Fixtures Account at $150, if we charge the balance of the invoice ($75) to this account, its balance will include $225, being the cost of the new machine. You will therefore charge this invoice through the Purchase Journal as follows:—

Furniture and Fixtures Depreciation Reserve	$25.00	
Furniture and Fixtures	75.00	
To Accounts Payable		$100.00

From the above example you can establish the following rules which may be used in all replacements:—

1. The Asset Account must be debited for the excess of the cost of the new piece of equipment over the one which is being discarded. If the new article costs less than the old one the asset account would, of course, be credited.
2. The Depreciation Reserve Account must be debited with the excess of the cost of the old article over the amount realized from its sale providing the Depreciation Reserve has been ample. If the old article is sold at a profit, this profit may be credited to Profit and Loss.

§ 298. Sale of Fixed Assets. After reading the above the student should have no difficulty in entering a sale of a fixed asset that is not accompanied by a replacement. The entry would be:—

Depreciation Reserve, Dr. (for the loss on the sale).
Cash (or Accounts Receivable), Dr. (for the amount realized from the sale).
To the Asset Account (for the cost of the article sold).

Jan. 5. Certificate received for transfer:—

No. 8. George Adams—50 shares—25 transferred to J. R. Jones—issued new certificates No. 9 to J. R. Jones for 25 shares and No. 10 to George Adams for 25 shares. (Certificate No. 10 is shown in Illustration No. 172.)

You will find the sheets showing the sales for the month of January in your box of supplies. The invoices are totalled in the first column, but at the end of the month the total of each invoice must be analysed in the departmental columns according to the explanation in § 296 and Illustration No. 181.

File these Condensed Sales Sheets in their proper order in your Sales Book. The sales should be posted to the Sales Ledger daily.

Have your Purchase Journals checked. Post to your Purchase and Sales Ledgers to date. Keep posting them currently during this and subsequent months. You will not be reminded of this again. The General Ledger postings need not be made until the end of each month.

Jan. 5. *Drafts Accepted:* Dominion Pencil Co., Dec. 20, 30 days, favor Bank of Montreal, $2,006.00; Canadian Typewriter Co., Jan. 2, 10 days, favor Bank of Commerce, $98.00.

Jan. 5. Check received on account of subscription to Capital Stock, J. R. Jones, $500.00.

Jan. 5. Deposit all cash on hand.

NOTE.—During this and subsequent months cash on hand will be deposited daily at the close of each day's business.

Jan. 8. Don't forget to enter the following drafts accepted by us in December which fall due to-day—Automobile Supply Co., $25.00; W. J. Gray, $60.00.

Jan. 9. Check from Warehouse for Cash Sale, $64.00.

NOTE.—The method of treating Cash Sales described in § 126 will be used in this and subsequent months. That is a "Cash Sales" Account will be opened in the Sales Ledger and charged from the Sales Record with cash sales. Payments received will be credited to this account.

Jan. 10. Check received on account of subscription to Capital Stock—J. R. Jones, $100.00.

Jan. 10. Sight Drafts drawn on the following: R. Brown, $363.00; Robt. Morrison, $1,970.50; J. D. Russell & Co., $160.00. Deposited the above drafts—exchange deducted, $6.23.

NOTE.—During this and subsequent months sight drafts will be treated as equivalent to checks.

§ 299. Exchange on Checks Deposited. Up to the present you have had practice on two methods of paying the bank for exchange on out-of-town checks deposited. For a time exchange was paid out of Petty Cash, and later the bank charged it by means of a debit slip. It was also pointed out that there was a third method, namely, to deduct the exchange from the deposit, in which case the bank would only credit the net amount to the depositor. This third plan was not considered altogether advisable, but as it is the most common method in practice the student should have experience in it. In this and subsequent months, therefore, all exchange will be deducted from the deposits on which it applies.

Jan. 12. Wrote Peoples Stationery Co., threatening to refuse to ship them any more goods unless old balance of $38.40 was paid immediately.

Jan. 13. The note for $3,000.00 in favor of the bank which fell due to-day was not renewed.

Jan. 13. The bank have notified you that Russell & Brown's note (which was on collection) has been returned dishonored. Face of note $1,517.00; interest $9.88.

NOTE.—For this and subsequent months all dishonored collection drafts will be charged back to customers' accounts through the Journal.

Jan. 13. *Certified Invoices Received:—*

Jan. 11. Canadian Importing Co., your address. 2/10—n/30. 50 gro. Erasers, P. & P., @ $4.00—$200.00; 50 gro. Erasers, Typewriter, @ $9.00—$450.00. Total—$650.00.

Jan. 10. Stafford Ink Co., your address. 2/10—n/30. 150 gro. Ink, Commercial, 2 oz. bottles, @ $12.00—$1,800.00.

Jan. 11. Irish & Johnston, your address. Policy # 21345 Western, $20,000.00 on Stock, @ $12.00—$240.00; # 16805 Sun, $4,000.00 on Buildings, @ $12.00—$48.00; # 16821 Railway Passengers, $1.500; Fire and Theft on Ford Truck, $30.00; # 21368 Ocean, Collision, and Personal Liability, $50.00; # 36821 Manufacturers, $900.00 on Furniture and Fixtures, @ $12.00—$10.80. Total—$378.80. (All the above policies are for one year from Jan. 1, except that on buildings which is for three years.) (Debit Insurance Account.)

Jan. 14. Russell & Brown have written apologizing for not meeting their note due on the 11th, and enclosing check for $126.88 on account and a new note for $1,400.00 at 15 days from Jan. 11, bearing interest at 7% payable at the Bank of Montreal, Winnipeg. Discounted the note, which realized $1,401.37.

Jan. 14. Exchange deducted on to-day's deposit, .58.

Jan. 14. Drafts accepted. Canadian Importing Co., Jan. 11, 10 days, favor Bank of Montreal, $637.00; Stafford Ink Co., Jan. 10, 10 days, favor Dominion Bank, $1,764.00.

Jan. 15. Checks issued. No. 4, Payroll, Geo. Adams, $100.00; Henry Gordon, $75.00; Travellers, $520.00; Office, $250.00; Warehouse, $175.00; Total, $1,120.00. No. 5, Travelling Expenses, $172.50.

Jan. 15. Checks received on account of subscriptions to Capital Stock—Student, $50.00; William Fraser, $50.00.

Jan. 15. Debit slip from bank. Collection on Russell & Brown's acceptance due Jan. 11 and returned unpaid, 10c.

Jan. 16. Credit slip from bank. Proceeds C. R. Andrew's note due Jan. 14, $1,981.88; less collection, $2.48 = $1,979.40.

Jan. 18. *Certified Invoices Received:—*

Jan. 15. Commercial Text Book Co., Toronto, 2/10—n/30, f.o.b. Toronto. 2,000 Business Letter Writing @ $1.25—$2,500.00; 2,000 Filing Systems @ $2.00—$4,000.00; 2,000 Office Routine @ $1.00—$2,000.00; 2,000 Spellers, C.B., @ 64c.—$1,280.00; 2,000 Tales and Sketches @ $1.50—$3,000.00; Cases $30.00. Total—$12,810.00.

Jan. 16. Grand & Jones, your address. 2/10—n/30. 1 Roll Kraft Wrapping Paper, $15.00; 1 doz. Brooms (for cleaning warehouse), $5.00. Total—$20.00.

Jan. 19. Checks received—C. R. Andrews, $1,930.60; Henry Bell, $815.34 (2% discount allowed on Invoice Dec. 20, $708.00); Davis & Bell, $595.35; A. R. Dow, $417.97.

Jan. 19. Exchange deducted on to-day's deposit, $4.70.

Jan. 19. Drafts accepted—Commercial Text Book Co., Jan. 15, 10 days, favor Bank of Montreal, $12,553.80; Grand & Jones, Jan. 16, 10 days, favor Imperial Bank, $19.60.

Jan. 20. Certificates received for transfer:—

No. 9. J. R. Jones, 25 shares, 15 transferred to Henry Gordon. Issued new certificate No. 11 to Henry Gordon for 15 shares, and No. 12 to J. R. Jones for 10 shares.

No. 10. George Adams, 25 shares, 5 transferred to Student. Issued new certificate No. 13 to Student for 5 shares, and No. 14 to George Adams for 20 shares. (Illustration No. 173 shows the endorsement on this transferred certificate as it is presented to you to complete the transfer.)

Jan. 20. Checks issued:—

No. 6. Stafford Ink Co., $750.00. No. 7, College Bank for Bank Draft, favor G. Spaulding & Co., Liverpool, £1,032 18s. 8d.—$5,055.43.

§ **300. Foreign Exchange.** Under normal conditions any difference that may arise through the settlement of a foreign account at a higher or lower rate of exchange than that at which it was entered at the time of the purchase or sale is adjusted through the Exchange Account. The above settlement should be treated in this manner. Since the war, however, foreign exchange has not been normal, and Sterling has been as low as $3.75 to the £, American dollars as high as $1.17 when purchased with Canadian dollars, while practically all European currencies have been quoted at mere fractions of their normal values. These large differences have necessitated other methods of treatment from those which are used under normal conditions. These methods are roughly of two kinds, as follows :—

1. Purchases and Sales which are payable in foreign currencies have been entered in the Purchase or Sales Books *not* at par of exchange but at the approximate market rate of exchange at the time the purchase or sale was made. When this method was followed the necessary adjustment at the time of settlement has usually been small, and it has been adjusted through the Exchange Account as in normal times.
2. The alternative to the above method has been to enter the purchase or sale at the par of exchange which has resulted in a very large adjustment at the time of settlement. When this method has been followed it has been necessary to make the adjustment *not* through Exchange Account but through Purchases Account or Sales Account. This plan has been largely adopted for the reason that exchange tables, which had to a large extent been printed before the war, did not provide for the abnormal rates of exchange which have existed as a result of the war.

The above methods have been adopted for the reason that foreign exchange is really an increase or a decrease in the purchase or selling price, and theoretically should never be adjusted through Exchange Account. Where the necessary adjustment is small, however, common practice permits of the adjustment at the time of settlement through Exchange Account merely because it is more convenient. The above methods have been described for the reason that at the time of writing the abnormal conditions described still exist and probably will continue to exist to some extent for years to come.

Bookkeepers for establishments which buy and sell in foreign countries can always be of considerable value to their employers if they will watch the market rates of exchange and endeavor as far as possible to pay foreign accounts when exchange is cheapest and to discount drafts on foreign customers when exchange is highest.

§ **301. Accounts in Foreign Currencies.** Concerns who have a considerable number of accounts, either with creditors, customers, agents, consignees, or branch houses in foreign countries, usually keep Ledger accounts that are especially ruled with money columns not only for Canadian dollars but also for foreign currency. This enables the accounts to be kept in both domestic and foreign currencies. In the case of accounts which have a number of entries, the exchange is usually adjusted at the end of accounting periods only or at times when it is desired to prepare a financial statement. Illustration No. 183 shows an account of this kind with an English creditor, in which exchange is adjusted at the end of each year.

Jan. 20. Certified Invoice Received :—

Jan. 19. W. J. Gray, your address. N/30. 2 M Trade Price Lists printed, $44.00 (OK'd conditionally).

Jan. 20. Credit Notes Received :—

Jan. 20. W. J. Gray, your address. Special reduction on Trade Price Lists billed Jan. 19, $10.00.

Jan. 21. Check Issued :—

No. 8. C.P.R. for freight on Commercial Text Book Co., Invoice of Jan. 15, $65.50.

Jan. 22. Certificates Received for Transfer :—

No. 2. J. E. Simpson, 1 share, transferred to Henry Gordon.

No. 3. C. G. Robinson, 1 share, transferred to Henry Gordon.

No. 4. M. C. Thomas, 1 share, transferred to Henry Gordon.

No. 5. M. J. Smith, 1 share, transferred to Henry Gordon. Issued new certificate No. 15 to Henry Gordon for 4 shares.

Jan. 23. Check from warehouse for Cash Sale, $120.00.

Jan. 23. Examine your Bills Payable Book for maturing Trade Bills and make entries accordingly. This should be done regularly. You will not be reminded of it again.

Jan. 25. Share certificate issued under agreement of Jan. 2—No. 16, Henry Gordon, 195 shares.

Jan. 28. It will be noted that after the bank has charged the acceptance of the Commercial Text Book Company due to-day, a large overdraft is created. Arrangements have been made for a loan with the bank, but the manager of the bank desires to wait until the Monthly Financial Statement is out before determining the exact amount of the loan. In the intervening few days, the overdraft is to be carried.

KERR & SON, LIMITED,
London, England.

		Rate		£			$				Rate		£			$	
Feb.14	Cash	4.88	CB	426	7	8	2,080	75	Jan. 1	Bal.	4.90		426	7	8	2,089	28
Mar.24	Cr.Note	4.90	PJ	13	14	5	67	23	Feb.28	Mdse.	4.90	PJ	213	14	5	1,047	23
Apr.15	Cash	4.91	CB	200	--	-	982	00	Apr.26	Mdse.	4.90	PJ	405	--	5	1,984	60
May 14	Cash	4.89	CB	405	--	5	1,980	55	May 16	Mdse.	4.90	PJ	1,121	10	10	5,495	55
May 31	Cash	4.92	CB	500	--	-	2,460	00	Oct.27	Mdse.	4.90	PJ	10	--	--	49	00
Jun.30	Cash	4.86	CB	621	10	10	3,020	69									
Dec.31	Profit on Exchange		J	---	--	--	25	44									
	Balance down Rate 4.90			10	--	--	49	00									
				2,176	13	4	10,665	66					2,176	13	4	10,665	66
									Dec.31	Bal., Rate 4.90			10	--	--	49	00

Illustration No. 183 **A Ledger Account ruled for Foreign Currency**

Jan. 29. Checks Issued :—

No. 9. Canadian Express Co., for express on sales invoice # 188—$15.00.

No. 10. Grand Trunk Railway for freight on sales invoice # 194—$20.00.

Jan. 29. Draft accepted—Commercial Text Book Co., $1,259.00—at sight.

Jan. 30. The bank has notified you that Russell & Brown's note (which had been discounted) has been returned dishonored. Face of note $1,400.00, Interest $4.83. Also received a letter from Russell & Brown asking for a further extension of 15 days. Replied stating that we could not grant extension unless there was a material payment on account.

Jan. 31. Checks Issued :—

No. 11. Payroll, Geo. Adams, $100.00 ; Henry Gordon, $75.00 ; Travellers, $540.00 ; Office, $250.00 ; Warehouse, $175.00. Total—$1,140.00.

No. 12. Travelling Expenses, $142.37.

Jan. 31. Your assistant has completed his Petty Cash Sheet for the month. After

checking it and finding it correct, Check No. 13 is issued to cover his disbursements as follows: General Expense, $8.00; Office Supplies, $5.50; Warehouse, 84c.; Delivery Expense, $10.00. Total—$24.34.

Jan. 31. Checks received on account of subscriptions to Capital Stock—Student, $50.00; William Fraser, $50.00.

§ **302. Bank Statement.** The company's bank has commenced using a posting machine, and instead of the usual pass book is now sending a monthly statement, the first of which for January is shown in Illustration No. 184. These statements, which are prepared on mechanical posting machines, are more convenient to the bank than the pass books and the

EXPLANATION OF CHARACTERS
D —Documents Credited
CL —Collections Credited
CC —Certified Cheque
RT —Returned Item
DM —Debit Memo.
INT—Interest
EC —Error Corrected
LST—Total of Several Cheques
OD —Overdraft

STATEMENT OF ACCOUNT PERIOD ENDING Jan. 31, 19

Adams & Gordon, Limited,
Your Place,
Canada.

IN ACCOUNT WITH

THE COLLEGE BANK OF CANADA

30 VOUCHERS RETURNED

KINDLY NOTIFY THE BANK OF ANY CHANGE OF ADDRESS

OLD BALANCE	DATE	CHEQUES IN DETAIL			DEPOSITS		1 S	BALANCE
3,353.22	JAN 2	300.00 –	754.80 –	43.12	JAN 2	100.00	JAN 1	3,353.22
					JAN 2	500.00	JAN 2	2,655.30 *
2,655.30	JAN 3	60.00 –	12.50 –		JAN 3		JAN 3	2,582.80 *
2,582.80	JAN 4	784.00 –			JAN 4		JAN 4	1,798.80 *
1,798.80	JAN 6	468.00 –			JAN 6	500.00	JAN 6	1,830.80 *
1,830.90	JAN 8	60.00 –	25.00 –				JAN 8	1,745.80 *
1,745.80					JAN 10	64.00		
					FEB 10	2,487.27	JAN 10	4,297.07 *
4,297.07					JAN 11	100.00	JAN 11	4,397.07 *
4,397.07	JAN 13	3,000.00 –					JAN 13	1,397.07 *
1,397.07					JAN 14	126.30		
					JAN 14	1,401.37 D	JAN 14	2,924.74 *
2,924.74	JAN 15	1,120.00 –	172.50 –	1.00 DV	JAN 15	100.00	JAN 15	1,732.14 *
1,732.14	JAN 16	98.00 –			JAN 16	1,979.40 CL	JAN 16	3,613.54 *
3,613.54	JAN 20	5,055.43 –			JAN 20	3,754.36	JAN 20	2,312.67 *
2,312.67	JAN 23	1,764.00 –	2,006.00 –		JAN 23	120.00	JAN 23	1,337.33 OD
1,337.33	JAN 24	637.00 –	65.50 –				JAN 24	2,039.83 OD
2,039.83	JAN 28	12,553.80 –	750.00 –		JAN 28	135.50	JAN 28	15,208.13 OD
15,208.13	JAN 29	19.60 –	20.00 CC –	1,259.00 –			JAN 29	16,506.73 OD
16,506.73	JAN 31	1,140.00 –	142.37 –	24.34 –				
	JAN 31	1.00 DV –	8.90 INT	5.00 D				
	JAN 31	1,404.83 RT –					JAN 31	19,227.77 OD

PLEASE EXAMINE AT ONCE AND REPORT ANY DIFFERENCE IN THE STATEMENT DIRECT TO THE ACCOUNTANT

The last amount in this column is your balance at the end of the period above mentioned.

Illustration No. 184 Bank Statement for January

NOTE.—Only 30 vouchers returned where there are 31 charges. The shortage is the Certified Check (C C), which has not yet been returned. It should come back next month. As our deposit of the 31st (which was not made up until after banking hours) was not taken to the bank until the morning of Feb. 1, it is not credited by the bank in January.

banks are gradually commencing to use them in all their larger branches. They are not, however, as convenient to the depositor, for the reason that the depositor as a rule cannot check the account until the end of the month. If he finds an error at that time it is too late to correct it in the month in which it was made, so the correction has to be made in the bank's books in the following month. For instance, in checking the January bank statement you find the company credited with a deposit on Jan. 28 of which you have no record. Upon enquiry at the bank you find that it was a deposit of the Adams Hardware Co., and the bank ledgerkeeper has promised to correct the error next month.

NOTE.—This will affect your Bank Reconciliation.

Jan. 31. In the vouchers returned from the bank, you find debit slips for the following—Interest on Overdraft, $8.90 ; Long distance call re Russell & Brown draft, 50c. ; Collection on Russell & Brown acceptance return unpaid, 10c.

Jan. 31. Certified Invoice Received.

Jan. 31. Automobile Supply Co., your address. N/30. Gas, Oil, and Repairs for month, $29.00.

After having completed your entries to date proceed as follows :—

1. Have your Cash Book entries checked.
2. Close your Cash Book using the ruling shown in Illustration No. 178.
3. Complete the posting of your Cash Book as indicated by the headings of the various columns.
4. Prepare a statement reconciling the overdraft as shown by the bank's statement with the credit balance in your Ledger account with the bank.
5. Close your Purchase Journal.
6. Complete the posting of your Purchase Journal as indicated by the headings of the various columns. The total of the "Total Laid-down Cost" column is not posted.
7. Close your Bills Payable Book.
8. Complete the posting of your Bills Payable Book as indicated by the headings of the various columns.
9. Prepare the recapitulation of Sales and Credits as indicated in Illustration No. 181 on the last sheet of your Sales Record.
10. Complete the posting of your Sales Record as described in § 296.
11. Have all your work to date checked.
12. Do not close your Journal, as there are some further entries.

Jan. 31. After you have closed your Purchase Journal for the month you received the following account from your solicitors, Jones & Simpson :—

Paid Provincial Secretary for Incorporating Company, $160.00 ; Minute Book, Seal, Share Certificates, and Sundry Disbursements, $100.00 ; Our Services herein, $200.00. Total—$460.00. Enter it through the Journal.

§ 303. Organization Expenses. Those special expenses which occur upon the formation of a company and which will not likely occur again should be charged to an account entitled "*Organization Expenses*" or "*Preliminary Expenses.*"

These special expenses include such items as :—

1. The incorporation fee.
2. The charges of solicitors, accountants, engineers and valuators in connection with the incorporation of the company or the sale of its shares or other securities.
3. The cost of printing share certificates, bonds, prospectus or other special printing incidental to the organization of the company.
4. The cost of commission, brokerage, advertising, etc., in connection with the sale of shares or other securities.
5. All other expenses incidental to the formation of a company providing they will not be likely to occur again during the life of the company (including the cost of the seal, share ledger, etc.).
6. In the case of a company formed to commence a new business, all establishment expenses may be charged to this account, although in this case the account might better be called "*Organization and Establishment Expenses.*" *Establishment expenses*

would include all expenses incurred prior to the date on which the company is in a position to commence active operations. (For instance, a company is formed to commence the manufacture of an article, but before it can earn any revenue it has to sell shares and build a factory. While it is doing this salaries and office expenses are being incurred although the company is not earning any revenue.)

The benefits from Organization Expenses are derived *not at the time they are incurred but over the whole life of the company.* For this reason it is not always fair to charge the whole amount against the profits from the first year's operation, although if the amount is not great it is better to write it off to Profit and Loss during the first year. It is quite permissible, however, particularly in cases where the cost of organization has been large, to carry part of the cost over as a Deferred Charge. If this is done the whole cost, according to the best practice, should be charged against profits during not more than five years. Illustration No. 185 shows a typical "Organization Expense" account, where the total cost, $9,000,

Organization Expenses

1931 Jan	2	Incorporation				1931 Dec	31	Profit & Loss a/c (1/3)	J51	3000	00
		fee & Solicitors a/c	C1	1500	00	"	"	Balance carried			
	5	Printing share						forward	✓	6000	00
		cert. prospectus etc.	PJ1	500	00						
Feb	4	Dom. Appraisal									
		Co.-appraisal	C4	1000	00						
"	10	James Cameron									
		chart'd acc'nt'nt									
		statement & cert.									
		for prospectus	C6	1000	00						
"	28	Can. Securities Co.									
		underwriting									
		capital stock	J5	2000	00						
Apr	30	Total of Establish-									
		ment Expenses to									
		Apr. 30th. Factory									
		commenced oper-									
		ations May 1st	J15	3000	00						
				9000	00					9000	00
1932 Jan	1	Balance		6000	00	1932 Dec	31	Profit & Loss a/c (1/3)	J72	3000	00
						"	"	Bal. forward	✓	3000	00
				6000	00					6000	00
1933 Jan	1	Balance		3000	00	1933 Dec	31	Profit & Loss a/c (Bal.)	J92	3000	00

Illustration No. 185 Typical Organization Expense Account

has been written off over three years. At the end of the first year $6,000 is treated as a Deferred Charge, and at the end of the second year $3,000, while at the end of the third year the entire cost has disappeared.

Complete the Journal postings to date, but do not close the Journal as there are further entries.

§ **304. Deferred and Accrued Items.** You are already familiar with the method of estimating and entering Deferred Charges, Accrued Assets, Accrued Liabilities, and Deferred Credits at the end of the financial year. These, as you know, are brought into the accounts by Journal entries at the end of the year (in order that the Balance Sheet may show the true facts) and, as soon as the financial statements are prepared, are taken out of the accounts by reversing this Journal entry. There is, however, another method of treating these items in the accounts, which is frequently used where monthly financial statements are prepared. This method is not applicable to all deferred and accrued items, but only to those which expire or accrue *regularly*.

A typical Deferred Charge which expires regularly is Insurance. A premium of $120 is paid for a policy that is to cover a risk for twelve months. Under the method you have been using, an item such as this would be charged to Expense Account (or Insurance Account if the expenses are analysed in the General Ledger) and, if a financial statement is being prepared at the end of the seventh month, Expense would be credited and Deferred Charges debited with $50, thus showing the Expense at $70.

Under the other method, an account entitled *Prepaid Insurance* would be debited at the time the expenditure was incurred with the $120, and this account would be credited and Expense debited with $10 each month. At the end of each month this Prepaid Insurance Account would show the actual prepaid insurance, and at the end of the seventh month it would show a debit balance of $50, which would be exactly the same as the Deferred Charges Account would show under the first method. Expense Account would have been charged with $70, also exactly the same result as attained by the first method.

It will be seen that the second method is preferable where monthly financial statements are prepared, as it requires only one Journal entry each month instead of two as would be required under the first method. The method now described is often used in conjunction with an Insurance Register such as that shown in Illustration No. 150. Where such a Register is used, the proper column on the Register is totalled each month, and furnishes the correct amount to be written off to Expense for that month.

Accrued Assets (that accrue regularly) can be treated in the same manner. For instance, let us suppose that one of your assets is a mortgage of $10,000 on another person's building. The interest on this mortgage at 6% per annum is payable at the end of every six months. At any time during the six months there is an Accrued Asset of the proportion of the interest which has been earned but which has not become due. This can be treated as follows :—

> Debit an account called Accrued Interest on Mortgage each month with $50 and credit the proper Revenue Account. At the end of the sixth month, this account would show a debit balance of $300, the amount of interest which is due. When you receive the cash for the interest from the mortgagor, you will credit the Accrued Interest on Mortgage Account, which will then balance.

Accrued Liabilities (which accrue regularly) can be treated in the same manner. For instance, suppose the above mortgage had been a liability instead of an asset. You would then :—

> Credit Accrued Interest on Mortgage with $50 a month (charging Expense) and debit this account at the end of the sixth month with $300 when you paid the interest.

It is seldom that you find items of Deferred Credits, but if you should meet any that accrue regularly they would, of course, be treated in an exactly opposite manner from Deferred Charges.

It will be noted that the above method is not applicable to items that do not accrue or expire regularly. Such an item as Office Supplies on hand, while a Deferred Charge, could not be handled in the manner described.

You will adopt the above method in dealing with the following :—

Insurance Premiums Prepaid (Deferred Charge),
Interest on Mortgage Accrued (Accrued Liability),
Organization Expenses (Deferred Charge) ;

together with any other accounts of a similar nature that may be met with further on in your work. Change the title of your Insurance Account to "Prepaid Insurance" and that of Interest on Mortgage to "Accrued Interest on Mortgage." You have sufficient particulars in the text to enable you to determine the proper amount to charge to Expense each month for insurance. The mortgage of $6,000 is dated September 30, and bears interest at 6% per annum. The Organization Expense Account being of comparatively small amount is to be written off over twelve months.

Make entries for the January proportion of Insurance, Mortgage Interest, and Organization Expenses.

§ 305. Providing for Depreciation Monthly. Until the present you have been accustomed to make provision for Depreciation at the end of the year only, or at such other times as you may require the books to be closed. However, concerns who prepare monthly financial statements usually set aside reserves for Depreciation monthly. The entry is exactly the same, but the rate used is naturally only 1/12 of the rate that would be used if Depreciation were written off annually.

Make a Journal entry for the January reserves for depreciation, debiting Expense and using the following rates :—

Buildings—1/12 of 2% of Cost,
Delivery Equipment—1/12 of 25% of Cost,
Furniture and Fixtures—1/12 of 10% of Cost.

§ 306. Providing for Bad Debts Monthly. Where monthly financial statements are to be prepared, the Reserve for Bad Debts must be brought up to an amount adequate to meet the expected losses monthly instead of annually. This can be done in the same manner as at the end of the year, and can be based either on a percentage or on a careful survey of the accounts themselves.

After making a careful survey of your Accounts Receivable, you decide that the only ones that look the least doubtful are the Peoples Stationery Co., Ltd., and Russell & Brown. You decide that the following is an adequate provision for any possible losses on these accounts :—

10% on Peoples Stationery Co. account of $	$
10% on Russell & Brown „ „ $	$
Allowance for losses on accounts apparently good	$25.00
Correct amount of Reserve for Bad Debts	$

Make a Journal entry debiting Expense for an amount sufficient to bring the present Reserve for Bad Debts up to the Correct Reserve for Bad Debts after you have determined the correct amount by completing the above statement.

§ 307. Interim Financial Statements. A great many concerns are now requiring their accounting staffs to prepare monthly interim financial statements, as they find that their businesses cannot be successfully administered without more frequent information as to the financial position of the undertaking than is furnished by the usual annual Balance Sheet and Profit and Loss Account. When such interim statements are prepared it is not customary to close the Ledger as is done at the end of the year, hence the term "*Interim.*"

While the books are not closed, Deferred Charges, Accrued Assets, Accrued Liabilities, and Deferred Credits should be estimated with just as much care as at the end of the year. These items are entered in the same manner as you have previously entered them, except in so far as they are covered by the new method described in § 304. This method, however, covers practically all deferred and accrued items of any importance except supplies on hand.

The method of handling Depreciation and Bad Debts Reserves where interim statements are prepared has been described in § 305 and § 306.

A physical inventory of merchandise is not usually taken for the purpose of preparing interim statements. In most concerns it interferes with the regular work of the staff to such an extent that it is necessary to depend on the perpetual or book inventories. These book inventories are not usually entered in the books at all, but are merely brought in when preparing the interim statements.

The balance of Cases Account may be taken to be the value of cases on hand, subject to adjustment by agreeing with a physical inventory at the end of the year only.

Jan. 31. Supplies on hand:—

Advertising materials	$34.00
Coal	96.00
Office Supplies	25.00
Warehouse Supplies	65.00

Make the usual entry debiting Deferred Charges and crediting Expense. *Without waiting* put through the usual entry reversing the Deferred Charges entry, dating it February 1, and entering it in your Journal for February.

NOTE.—It is impossible to hold open a Columnar Journal to make the reversing entry in the same month as the entry which is reversed.

After having completed the above remaining entries for the month proceed as follows:—

1. Have your Journal entries checked.
2. Close your Journal as shown in Illustration No. 174.
3. Complete the posting of your Journal. Post the Interest Dr. and Cr. columns to the debit and credit of Expense Account; other columns as indicated by the column headings; Sundries columns in detail.
4. Foot and balance your Ledger accounts.
5. Take off a General Ledger Trial Balance.
6. Prove your Sales Ledger.
7. Prove your Purchase Ledger.
8. Prove your Share Ledger. Take balances off in two columns headed "Shares" and "Amount."
9. Prepare the Expense Analysis Sheet for the month of January, deducting credits to Expense Account from the corresponding debits. The grand total should agree with the balance of the Expense Account. Transfer all totals to the Annual Expense Analysis Sheet. Follow the forms shown in Illustrations No. 176 and No. 177.
10. Prove the Bills Payable Account (if any balance).

Jan. 31. The merchandise on hand as shown by the Perpetual Inventory is as follows: Text Books, $11,692.42; Stationery, $29,195.15.

Prepare an interim Profit and Loss Account and Balance Sheet in the form shown in Illustrations No. 186 and No. 187. If it is the desire of your teacher, a Working Sheet may be prepared before the financial statements, but this should not now be necessary.

Do not close your Ledger.

ADAMS & GORDON, LIMITED.
INTERIM PROFIT AND LOSS ACCOUNT FOR THE MONTH ENDING JANUARY 31st, 19 .

	Total	Department	
		Text Books	Stationery
Sales for Month (net)	x,xxx.xx	x,xxx.xx	x,xxx.xx
Inventory Dec. 31st, 19 .	xx,xxx.xx	x,xxx.xx	xx,xxx.xx
Net Purchases for Month (including freight, duty and brokerage)	xx,xxx.xx	xx,xxx.xx	x,xxx.xx
	xx,xxx.xx	xx,xxx.xx	xx,xxx.xx
Less Inventory Jan. 31st, 19 .	xx,xxx.xx	xx,xxx.xx	xx,xxx.xx
Cost of Goods Sold	x,xxx.xx	x,xxx.xx	x,xxx.xx
Gross Profit for Month	x,xxx.xx	xxx.xx	x,xxx.xx
Purchase Discounts	xxx.xx	xxx.xx	xx.xx
	x,xxx.xx	xxx.xx	x,xxx.xx
Less Expenses (as per Expense Analysis)	x,xxx.xx	x,xxx.xx	x,xxx.xx
Net Loss for Month	xxx.xx	xxx.xx	xxx.xx

Illustration No. 186

ADAMS & GORDON, LIMITED.
INTERIM BALANCE SHEET AS AT JANUARY 31st, 19 .

ASSETS				LIABILITIES		
Current Assets:-				Current Liabilities:-		
Cash		xx.xx		Bank Overdraft	xx,xxx.xx	
Accounts Receivable:				Accounts Payable	x,xxx.xx	
Trade	xx,xxx.xx			Accrued Interest on		
Less Provision for				Mortgage	xxx.xx	xx,xxx.xx
Bad Debts	xxx.xx	xx,xxx.xx				
Accounts Receivable:				Mortgage on Real Estate		x,xxx.xx
Subscribers to						
Capital Stock		x,xxx.xx		Total Liabilities		xx,xxx.xx
Merchandise Inventory:						
Text Books	xx,xxx.xx					
Stationery	xx,xxx.xx	xx,xxx.xx	xx,xxx.xx	SHAREHOLDERS' INTEREST		
Land, Buildings & Equipment:-				Capital Stock Subscribed	xx,xxx.xx	
Land (at cost)		x,xxx.xx				
Bldgs. (at cost)	xx,xxx.xx			Less Deficit from Trading		
Less Provision for				Losses	xxx.xx	xx,xxx.xx
Depreciation	xx.xx	xx,xxx.xx				
Del. Equipment						
(at cost)	x,xxx.xx					
Less Provision for						
Depreciation	xxx.xx	x,xxx.xx				
Furniture & Fixtures						
(at cost)	x,xxx.xx					
Less Provision for						
Depreciation	xx.xx	xxx.xx	xx,xxx.xx			
Goodwill			xx,xxx.xx			
Deferred Charges:-						
Prepaid Insurance		xxx.xx				
Organization Expenses		xxx.xx				
Sundry Supplies on hand		xxx.xx	x,xxx.xx			
Cases on Hand			xx.xx			
			xx,xxx.xx			xx,xxx.xx

Illustration No. 187

§ 308. Some Notes on the Financial Statements illustrated on Page 268. You will note that Expenses are shown in one total in the Profit and Loss Account instead of being detailed as formerly. This illustrates a common tendency in preparing financial statements. It is a growing and very effective custom to make the Balance Sheet and the Profit and Loss Account as condensed as possible (consistent with completeness) and to attach to these statements " *Schedules* " or " *Exhibits* " explaining and supporting any items that may require more detailed information. This practice has the effect of making the main statements (Balance Sheet and Profit and Loss Account) more easily understood by those who have a limited knowledge of accounts.

Provisions. You will note that the Reserves for Depreciation and Bad Debts are entitled " Provisions " in the Balance Sheet. A term " Reserve Fund " is used very frequently in company accounting. It has quite a different meaning from " Reserve " used in connection with Depreciation or Bad Debts, and will be more fully explained later. In order to avoid confusion in the minds of persons who may be reading the financial statements and who may not be acquainted with accounting terminology, many accountants are now using the terms " Provision " or " Appropriation " in place of " Reserve " in referring to Depreciation, Bad Debts, and similar items.

Trade Accounts Receivable. Note the distinction between " Trade " Accounts Receivable and Accounts Receivable from Subscribers to Capital Stock. On a Balance Sheet trade accounts receivable and payable should always be shown quite distinctly from any other accounts receivable and payable.

Classification of Assets and Liabilities. Note also that the titles of the various classes of assets and liabilities are omitted with the exception of " Current Assets " and " Current Liabilities." This also is done to conform with good practice. Many laymen do not understand the titles " Liquid," " Floating or Circulating," " Tangible," " Intangible," " Fixed or Capital," etc., and to see these terms on a statement only has the effect of confusing them. The accountant should always endeavor to make his statements as simple as possible by a logical arrangement of the figures and by the avoidance of technical language wherever possible. Another reason for dropping the term " Intangible " is that many business men have a curious antipathy to having any of their assets labelled as " intangible." While terms indicating a minute classification of assets and liabilities are not essential, the terms " Current Assets " and " Current Liabilities " should be continued. These terms, unlike the others, are well understood and should be maintained because the difference between the " Current Assets " and " Current Liabilities " is the " Liquid Surplus " or " Working Capital," a figure which is of particular importance to the company's bankers. While the student will no longer make use of the complete classification of assets and liabilities in the Balance Sheet as was required in his earlier work, he should not forget the former classification as it will be of the greatest help in enabling him to arrange his Balance Sheet in a logical manner. This can only be done if he has a good knowledge of the complete classification.

EXAMINATION, SECTION 21.

1. Under what circumstances is a columnar Journal useful ?
2. What is a Private Company ? How does it differ from a Public Company ?
3. Is there anything distinctive about the name of a Joint Stock Company ? If so, what ?
4. What are the controlling accounts for the Share Ledger ? What do they represent ?
5. Does a person who wishes to transfer shares in a company have to sign the Transfer Register personally ? If not, how may he avoid it ?
6. What entry do you make for the following ? An automobile which cost $1,500, was sold for $1,000. Assume that a proper reserve for depreciation has been maintained.

7. Name three items that might be charged to Organization Expense Account.

8. Would you regard it as conservative to spread the Organization Expense Account of a company over twenty years? If not, why not?

9. Should technical language be used in a financial statement?

The following review questions are taken from the Primary Examinations of the Institute of Chartered Accountants of Ontario:—

10. Are there any rules for locating errors in Trial Balances? If so, state them.

11. How would you balance the General Ledger without the necessity of taking off a Trial Balance of the Customers' and Creditors' Ledgers?

Section 22

CONSIGNMENT AND CURRENT ACCOUNTS.

Concerns which are expanding usually find that it is impracticable to ship all orders from their chief places of business. In order to handle sales to distant points, it is usually necessary to carry stocks of goods in cities reasonably close to the places of business of the customers. For instance, a company in Eastern Canada which manufactures goods which have a sale in the West, would usually find it necessary to make some arrangements to carry a stock of goods in some Western city, say Winnipeg. This is necessary for two reasons :—

1. The excessive cost of making a large number of small shipments from the factory in the East as compared with a few large shipments to be distributed from Winnipeg.

2. The delay that would occur in sending every individual order to the East and shipping the goods called for by the order back West.

The above example illustrates, but by no means covers, the reasons for the common practice of business houses carrying stocks of merchandise at places other than their chief places of business.

A Company which desired to carry a stock of goods in another city could do so in various ways :—

1. It could open a branch.

2. It could make arrangements with a warehousing company to carry the stock and make shipments upon receipt of orders.

3. It could contract with a local jobber to give the jobber exclusive territory providing he carried a full stock at all times.

4. It could make arrangements with a local merchant to handle the company's products "*on consignment.*"

Branch Accounts will be treated in a later section. If the stock were kept in a public warehouse, the only change necessary in the accounts would be a separate perpetual inventory in order to keep account of the goods in the warehouse. If handled through a jobber, the goods would be sold outright to the jobber and there would be no necessity for any alteration in the accounts. Consignment accounts are treated in this section.

§ 309. Consignments. Where one person ships goods to a second person to be sold by the second person, at the risk of the shipper, the transaction is known as a "*Consignment,*" and the goods are said to have been shipped "*on consignment.*" The shipper is known as the "*Consignor,*" and the recipient as the "*Consignee.*" The Consignee usually receives as his remuneration a commission of a fixed percentage on the amount for which he sells the goods. The Consignor is usually charged with all the direct expenses of the Consignment. At the time that the goods are shipped on consignment, there is no sale, and consequently no necessity for an invoice. However, a "*pro forma*" invoice is usually made out. This *pro forma* invoice is simply a list of the goods shipped and is sometimes priced so as to inform the Consignee of the amount that is expected to be realized from the Consignment. It has, however, no effect on the accounts, but is merely a "memorandum" document.

It is common practice for the Consignor to draw on the Consignee for a reasonable portion of the value of the goods on consignment. This draft is usually discounted by the Consignor, and is often drawn for a period—say three months—which will give the Consignee ample time to dispose of the goods. Where there are a number of consignments through the same Consignee, they are usually numbered, and an account opened for each.

Legally the Consignee is the agent of the Consignor for the sale of the merchandise shipped to him on consignment, and it is a well-defined rule of common law that the principal

(Consignor) is responsible for the acts of his agent (Consignee) within the scope of the agency. On the other hand, he is entitled to all benefits which accrue from the agency, less expenses paid by the agent and the agent's remuneration (commission). Following this rule, it will be seen that the Consignor is liable for bad debts incurred by the Consignee from the sale of the Consignment. To prevent this applying, arrangements are usually made to pay the Consignor a somewhat higher commission on the understanding that he, personally, will guarantee the collection of all accounts.

Entries for a Consignment in Books of Consignor.

§ 310. **When Consignment is Shipped.** As the student should readily perceive, the shipping of goods on consignment does not constitute a sale. The goods still remain the property of the Consignor, although in the possession of the Consignee. One might reasonably wonder why any entry should be made when a consignment is shipped, since there is no business transaction. In fact, theoretically, there is no excuse for making any entry at this stage. All that need be done is to take the goods into the inventory as if they were still on hand. This, however, is where theory clashes with practice. Practising accountants are all familiar with the possibility of goods on consignment being omitted from the Inventory. To prevent such omissions, the best authorities advocate setting up the shipment of a consignment on the books, at least where consignments are not the regular business of the concern in question. Where the main business of a concern is the shipping of goods on consignment, the methods outlined in this section could, of course, be modified to suit local conditions. As it is beyond the scope of this work to deal with particular lines of business, these modifications will not be discussed.

As the shipping of goods on consignment does not constitute a sale, the value of goods cannot be charged to the personal account of the Consignee. Neither can they be credited to Merchandise Sales. The following entry is made, however:—

Consignment	Dr.	For the cost of the goods.
To Merchandise shipped on Consignment	Cr.	

If the Consignee does not sell all the goods but returns a portion of them to the Consignor, the entry would, of course, be just the reverse of the above:—

Merchandise shipped on Consignment	Dr.	For the cost of the goods returned unsold.
To Consignment	Cr.	

§ 311. **Consignment Account.** A separate Consignment Account is opened for each consignment, and the purpose is to show the profit or loss on the Consignment. As there are often a number of Consignment Accounts, each is given a title which identifies the consignment such as "Consignment George Wilson & Co., No. 156." The Consignment Account is debited with the cost of the goods shipped as described above, together with all other expenses of the Consignment.

It is credited with the Sales, and (as described above) with the cost of any goods returned unsold. The balance, which is the profit or loss, is closed to an account entitled "*Consignment Profits and Losses.*" The balance of this account is closed at the end of the year to the Profit and Loss Account. If there are very few consignments, the profits or losses are often closed direct to Profit and Loss Account.

§ 312. **Merchandise Shipped on Consignment.** This account shows the cost of goods shipped on consignment, and is closed at the end of the year, to the credit of Trading Account.

§ 313. **When Charges are Paid by Consignor.** As the Consignor is usually responsible for direct expenses of the Consignment, such as Freight, Marine Insurance,

Landing Charges, etc., he quite frequently pays such of these charges as can be conveniently paid at the time the goods are shipped to the Consignee. These payments would also be charged to the Consignment Account as follows:—

Consignment	Dr.	For checks issued in payment of direct expenses of the consignment.
To Bank	Cr.	

Where a consignment is not all sold and the Consignee returns the unsold portion to the Consignor, the entry for charges paid by the Consignor would be the same as above. Freight and other charges on goods returned unsold do not add to the value of the unsold portion and can, consequently, be treated only as a cost of the portion which has been sold.

Account Sales of Leather *sold on account of*
Ontario Leather Co. Ltd.
Toronto Canada *by George Wilson & Co Ltd*
Liverpool, Nov. 12th 19..
Consignment No. 156 per S.S. Corsican, May 7th 19–

Completed	20	doz.	Willow Calf 17 H. M. B.	3910 ft.		4	6	879	15	0
	20	"	" " 17 M. C.	3080 "		4	0	616	0	0
	60	"	" " "	9930 "		3	9	1861	17	6
	10	"	" " "	1610 "		3	6	281	15	0
	110	"		18530 "				3639	7	6
			Less							
			Landing Charges		5	0	0			
			Insurance		25	4	3			
			Commission, 2½%		90	19	8	121	3	11
							£	3518	3	7
			E. & O. E.							

Illustration No. 188 Account Sales

NOTE.—E. & O.E. is an abbreviation of "Errors and Omissions Excepted," often seen on invoices and other documents. It is legally quite without effect and there is no object in using it.

§ 314. **When Account Sales are Received.** When the Consignee has sold all or a portion of the goods on consignment, he sends a statement of the net proceeds of such sales to the Consignor. This statement is known as an "Account Sales," and a form is shown in Illustration No. 188. It will be seen from the illustration that an Account Sales is simply a report from the Consignee of the goods sold and the amount realized, from which is deducted the direct expenses of the Consignment which have been paid by the Consignee (*e.g.* Landing Charges and Insurance) and the Commission charged by the Consignee for selling the goods.

The net amount is credited by the Consignee to the Consignor, and in the books of the latter is entered as follows :—

Consignee (Personal Account) (for the net amount of the Account Sales)	Dr.	£3,518 3 7	
Consignment (for the direct expenses of the consignment)	Dr.	30 4 3	
Consignment (for the commission)	Dr.	901 9 8	
To Consignment (for the sales)	Cr.		£3,639 7 6

The amounts used are taken from Illustration No. 188 merely as a guide. In practice they would usually be converted into dollars. It will be seen that there are usually three postings to the Consignment Account from an Account Sales.

These could, of course, be condensed to a single credit posting for the net amount of the Account Sales. It is better in most ordinary cases, however, to post the Consignment Account in considerable detail in order to facilitate reference.

§ 315. When Remittances are Received from the Consignee, or when drafts on the Consignee are discounted, the Consignee's personal account is credited.

Entries for a Consignment in the Books of the Consignee.

§ 316. When Consignment is Received. The entries in the books of the Consignee are comparatively simple. When the goods are received from the Consignor no entry is made in the books of the Consignee as no transaction has taken place. In fact, as pointed out in § 310, it is a rather poor theory to make any entry in the books of the Consignor, but an entry is made and justified in order that the goods on consignment may not be overlooked when an inventory is taken. No such consideration affects the Consignee, however, but, of course, stocktakers should be instructed *not* to take in any consignment stock when taking an inventory.

As no entry is made when goods are received on consignment, naturally there is no entry when unsold goods are returned to the Consignor.

§ 317. When Charges are Paid by the Consignee the Consignor should be charged as follows :—

Consignor	Dr.	For checks issued in payment of freight, insurance, landing charges, or other direct expenses of the Consignment.
To Bank	Cr.	

§ 318. When Sales are Made by the Consignee the Consignor's personal account should be credited with the sales and charged with the commissions as follows :—

Accounts Receivable (or Cash)	Dr.	For the amount for which goods are sold.
To Consignor	Cr.	
Consignor	Dr.	For the commission on the sale.
To Commissions	Cr.	

§ 319. When Remittances are Made to the Consignor or when drafts drawn by the Consignor are accepted by the Consignee the Consignor should be charged :—

Consignor	Dr.	For remittances or bills accepted in favor of Consignor.
To Bank (or Bills Payable)	Cr.	

CURRENT ACCOUNTS.

§ 320. A new type of personal account which is frequently met with in dealing with consignments is an account where interest is charged or credited on the various items making up the account. For instance, the personal account of a Consignor in the books of a Consignee often bears interest at a pre-determined rate. Personal accounts that bear interest are known as "*Current Accounts*" or "*Accounts Current.*" Such accounts are used in many instances, but more particularly where considerable sums of money are outstanding for relatively long terms. They are usually ruled with special columns to take care of the interest. (See Illustration No. 189.) If you will examine the illustration, you will find

A & Co. in account with B & Co.

Consignment No. 102 (Interest to April 30, 19)

Dr. Date		Particulars	Amount		Days	Int.		Cr. Date		Particulars	Amount		Days	Int.	
19--								19--							
Jan.	16	Del. Chgs. etc.	300	00	104	5	98	Jan.	31	Sales	5,000	00	89	85	34
	16	Draft due Apr. 1	4,500	00	29	25	03	Feb.	14	"	8,000	00	75	115	07
	31	Commission	250	00	89	4	27	Apr.	30	Int. from contra	51	50			
Feb.	14	"	400	00	75	5	75								
	14	Check	7,500	00	75	107	88								
Apr.	30	Bal. of Int. trans-ferred to contra				51	50								
	30	Balance	101	50											
			13,051	50		200	41				13,051	50		200	41
Apr.	30	Check	101	50				Apr.	30	Balance	101	50			

Illustration No. 189

Current Account of A & Co. in books of B & Co. as submitted to A & Co. with check for $101.50

that every amount has a space opposite it for the number of days between the date of the item and the date at which the account is closed, which is stated at the head of the account. Interest on each amount for the number of days so determined is calculated and entered in the interest column opposite each amount. When all interest is calculated, the net amount is entered in the interest column on the lesser side, which has the effect of balancing the interest columns. This net amount is then carried to the opposite side in the amount column by means of the following Journal entry (using the figures shown in the Illustration).

Interest	$51.50	
To A. & Co.		$51.50

If the debit side had borne the greater amount of interest, this entry would be reversed.

Illustration of the Points so far Covered in this Section.

In order to illustrate the method of handling Consignment and Current Accounts, the following problem is worked out :—

Example. A & Co. make regular shipments to B & Co., their agents, on consignment. B & Co. get 5% commission on sales and guarantee all book debts. A & Co. pay all direct expenses of the consignment. B & Co. charge or credit A & Co.'s account with interest at 7% per annum.

The following transactions take place :—

Jan. 2. A & Co. ship Consignment No. 102, consisting of 12 cases of goods to B & Co. The goods were valued for insurance in the *pro-forma* invoice at $15,000.00, which is 25%

above cost. A & Co. prepay sea freight and marine insurance, $460.00. A & Co. draw on B & Co. for $4,500.00 (draft due April 1), and discount draft for $4,420.00.

Jan. 16. B & Co. receive goods and pay delivery charges, etc., $300.00. They also accept draft for $4,500.00.

Jan. 31. B & Co. sell four cases for $5,000.00 and send Account Sales to A & Co., which A & Co. receive February 14th.

Feb. 14. B & Co. sell seven cases for $8,000.00 and send remittance of $7,500.00 and Account Sales to A & Co.

Feb. 28. A & Co. receive above remittance, and Account Sales (assume that the remittance is payable at par).

Apr. 15. B & Co. return balance of goods.

Apr. 30. A & Co. receive balance of goods and pay freight and other charges, $110.00.

Apr. 30. B & Co. mail current account made up to this day, with remittance for amount due by them.

May 15. A & Co. receive remittance and Current Account.

Show—(*a*) Journal entries and necessary Ledger Accounts in books of B & Co.

(*b*) Account Sales.

(*c*) Journal entries and necessary Ledger Accounts in books of A & Co.

Answer. (*a*) *Entries in B & Co.'s Books.*

Jan. 16.	A & Co. (Cons. No. 102) To Bank	$300.00	$300.00	Read § 317
	A & Co. To Bills Payable	4,500.00	4,500.00	Read § 319
Jan. 31.	Accounts Receivable (or Cash) To A & Co. (Cons. No. 102)	5,000.00	5,000.00	Read § 318
	A & Co. (Cons. No. 102) To Commissions	250.00	250.00	Read § 318
Feb. 14.	Accounts Receivable (or Cash) To A & Co. (Cons. No. 102)	8,000.00	8,000.00	Read § 318
	A & Co. (Cons. No. 102) To Commissions	400.00	400.00	Read § 318
	A & Co. (Cons. No. 102) To Bank	7,500.00	7,500.00	Read § 319
Apr. 30.	Interest To A & Co.	51.50	51.50	Read § 320
	A & Co. (Cons. No. 102) To Bank	101.50	101.50	Read § 319

(*b*) *Account Sales.*

Account Sales of Merchandise sold on account of A & Co. by B & Co., Consignment No. 102, Jan. 31, 19 :—

4 Cases		$5,000.00
Less :		
Delivery Charges, etc.	$300.00	
Commission 5%	250.00	
		550.00
		$4,450.00

Account Sales of Merchandise sold on account of A & Co. by B & Co., Consignment No. 102, Feb. 14, 19 :—

7 Cases	$8,000.00
Less :	
Commission 5%	400.00
	$7,600.00

(c) Entries in A & Co.'s Books.

Jan. 2.	Consignment to B & Co., No. 102	$12,000.00		Read
	To Mdse. shipped on Consignment		$12,000.00	§ 310
	Consignment to B & Co., No. 102	460.00		Read
	To Bank		460.00	§ 313
	Interest	80.00		Read
	Bank	4,420.00		§ 315
	To B & Co.		4,500.00	
Jan. 31.	B & Co.	4,450.00		
	Consignment to B & Co., No. 102	300.00		Read
	,, ,, ,, ,,	250.00		§ 314
	To Consignment to B & Co., No. 102		5,000.00	
Feb. 14.	B & Co.	7,600.00		Read
	Consignment to B & Co., No. 102	400.00		§ 314
	To Consignment to B & Co., No. 102		8,000.00	
Feb. 28.	Bank	7,500.00		Read
	To B & Co.		7,500.00	§ 315
Apr. 30.	Merchandise shipped on Consignment	1,000.00		Read
	To Consignment to B & Co., No. 102		1,000.00	§ 310
	Consignment to B & Co., No. 102	110.00		Read
	To Bank		110.00	§ 313
May 15.	B & Co.	51.50		Read
	To Interest		51.50	§ 320
	Bank	101.50		Read
	To B & Co.		101.50	§ 315
	Consignment to B & Co., No. 102	480.00		Read
	To Consignment Profits and Losses		480.00	§ 311

Consignment to B & Co., No. 102.

Jan. 2.	Cost of 12 Cases	$12,000.00	Jan. 31.	Sales—4 cases	$5,000.00
	Sea Freight and Insurance	460.00	Feb. 14.	,, 7 ,,	8,000.00
Jan. 31.	Delivery Charges, etc.	300.00	Apr. 30.	Goods returned, 1 case	1,000.00
	Commission	250.00			
Feb. 14.	,,	400.00			
Apr. 30.	Freight, etc., on goods returned	110.00			
May 15.	Profit on Consignment	480.00			
		$14,000.00			$14,000.00

B & Company.

Jan. 31.	Account Sales	$4,450.00	Jan. 2.	Draft against Cons. 102	$4,500.00
Feb. 14.	,, ,,	7,600.00	Feb. 28.	Check	7,500.00
May 15.	Interest	51.50	May 15.	,,	101.50
		$12,101.50			$12,101.50

§ 321. Valuation of Goods on Consignment. Should the Consignor find it necessary to prepare his financial statement before all goods on consignment are sold, the Consignment Account will have to be adjusted so that it will show a debit balance equal to the value of the unsold goods. This balance will then be shown in the Balance Sheet as an asset, while the necessary adjustment will represent the profit or loss on the portion of the goods which have been sold and will consequently be transferred to Consignment Profits and Losses. The method can best be illustrated by an example.

Example. Referring to the preceding example, show Consignment No. 102 Account as it would appear if A & Co.'s year ended January 31st; also explain how merchandise unsold is valued and show any additional Journal entries.

Answer. *Consignment to B & Co., No. 102.*

Jan. 2. Cost of 12 Cases	$12,000.00	Jan. 31. Sales—4 Cases	$5,000.00
Sea Freight and Insurance	460.00	,, ,, Balance cost of 8 Cases	8,506.67
Jan. 31. Delivery Charges, etc.	300.00		
Commission	250.00		
Profit on 4 Cases	496.67		
	$13,506.67		$13,506.67
Feb. 1. Balance	$8,506.67	Feb. 14. Sales—7 Cases	$8,000.00
Feb. 14. Commission	400.00	Apr. 30. Goods returned: 1 Case	1,000.00
Apr. 30. Freight, etc., on goods returned	110.00	Apr. 30. Loss on 7 Cases	16.67
	$9,016.67		$9,016.67

Merchandise on consignment is valued as in the case of any other merchandise at cost or market, whichever is the lesser amount. Assuming the eight cases still unsold at January 31 to be worth cost, their value is calculated as follows:—

Cost of 12 Cases (original)	$12,000.00
Sea Freight and Insurance	460.00
Delivery charges	300.00
Total cost of 12 Cases laid down in warehouse of B & Co.	$12,760.00
Less ⅓ of above being cost of 4 Cases sold	4,253.33
Cost of 8 Cases still unsold	$8,506.67

The following would be the necessary Journal entries to adjust the Consignment Account:—

Consignment—To B & Co., No. 102	$496.67	
To Consignment Profits and Losses		$496.67

§ 322. The entries described in this Section are those which the authors consider best adapted for a concern that does only a small part of its business on consignment. Concerns which do a large consignment business usually keep books specially designed for that type of business. These might include—

1. A Consignment Ledger with controlling account for same in the General Ledger.
2. Special Consignment Stock Books both "Inward" and "Outward" to record the stock on hand on consignment from others or out on consignment to others.
3. Special Consignment Sales Records.

Such concerns, in addition to keeping specially designed books, often modify the entries

described in this Section, particularly in the case of perishable fruits and produce which are commonly handled on consignment and naturally are quickly turned over. In this instance the records are often very rough and informal.

EXAMINATION, SECTION 22.

1. What is a Consignment?
2. Is any entry made in the books of a Consignor when goods are shipped on consignment? Why?
3. What is an Account Sales?
4. On what basis should goods on consignment be valued by the Consignor when preparing a Balance Sheet?
5. The following account refers to a consignment of 1,000 barrels of flour shipped to a Consignee in Port of Spain, Trinidad. The end of Consignor's financial year has arrived and he desires to close his books. The Consignee reports that the market value of the flour remaining unsold is $10.50 a bbl. Show the account properly closed with balance brought down.

Consignment No. 15.

Nov. 2.	Cost of flour	$10,000.00	Nov. 30. Sales—250 bbls.	$3,250.00
Nov. 3.	Freight and Insurance	500.00	Dec. 31. „ —400 „	4,300.00
Nov. 20.	Landing Charges, etc.	250.00		
Nov. 30.	Commission	162.50		
Dec. 31.	„	215.00		

6. A B & Co. consign goods to B C & Co. Prepare account current bearing 6% interest with A B & Co. as it would appear in the books of B C & Co. for the following. Account to be made up to Dec. 31. B C & Co. receive 5% commission:—

   June 30. Received Consignment No. 27 from A B & Co., accompanied by *pro forma* invoice amounting to $10,000, and paid duty, landing charges and cartage, $500.

   July 31. Sold ½ of goods for $5,000 cash.

   Aug. 31. Remitted A B & Co. $3,000 on account.

   Sept. 30. Sold ¼ of Goods for $4,000 cash.

   Oct. 31. Remitted A B & Co. $4,000 on account.

   Nov. 30. Sold ⅛ of goods for $1,500 cash.

   Dec. 31. Returned remainder of goods to A B & Co. and paid freight and insurance thereon, $100. Remitted A B & Co. check for balance of account current.

   To save work, interest on the above problem may be calculated by months instead of days.

   The following review questions are taken from the Primary Examinations of the Institute of Chartered Accountants of Ontario:—

7. Explain the difference between a Trial Balance and a Balance Sheet and the purposes of each.
8. What is the best method of treating freight and duty on purchases? What does the balance remaining in the freight and duty account at the end of a month represent (*a*) if it is a debit, (*b*) if it is a credit?

Section 23

RESERVES, RESERVE FUNDS, ETC.

The subject which we are to discuss in this section is one in connection with which there is some considerable difference of opinion among professional accountants, particularly as to the accounting terminology used. The authors will endeavor, however, to outline the subject in a simple manner, adopting the terminology that appears to be in most common use.

§ 323. **Reserves *v*. Reserve Funds.** A *Reserve* is a provision for an *expected loss or liability* the amount of which has not been definitely ascertained.

A *Reserve Fund* consists of *undivided profits* which have been formally " reserved " when they might have been divided.

Reserves are charges against profits (i.e. they should be charged to Profit and Loss Account *before* the net profit is determined).

Reserve Funds are dispositions of profits (i.e. they should be charged to Profit and Loss Appropriation Account *after* the net profit has been determined).

Adequate *Reserves must* be provided if the results shown by the accounts are to be correct.

Reserve Funds are *optional*.

You are already familiar with two common reserves, those for Depreciation and those for Bad Debts. *Reserve Fund* is a new term, since Reserve Funds are not commonly met with except in Company Accounting.

§ 324. **Reserve for Depreciation.** As you know, a Reserve for Depreciation is set up to provide for an *expected loss* upon the eventual sale or scrapping of a fixed asset, which loss arises from wear and tear and obsolescence. We are reasonably certain that there will be a loss, yet *at no time* during the life of the asset can the proportion of this expected loss which has accrued to date *be definitely ascertained*. If it could, there would be no necessity for a Reserve as the asset account itself could be definitely written down. As we do not definitely know the amount of the loss, however, we are forced to set up a Reserve for Depreciation of an amount which we deem sufficient to *provide* for the expected loss.

§ 325. **Reserve for Bad Debts.** Similarly, the Reserve for Bad Debts provides for an expected but not definitely ascertainable loss on the collection of Accounts and Bills Receivable. We know that there will be a loss, but we do not know how much nor on what particular accounts or bills this loss will be. We therefore set up a Reserve, but as soon as a loss is definitely incurred on any particular account, we write off the account and charge the Reserve.

§ 326. **Other Reserves.** As in the case of Depreciation and Bad Debts, Reserves should be set up to provide for the probable loss on the realization of *any asset* which is showing on the books at an amount higher than the value it is expected to realize. In addition to providing for probable losses on the realization of assets, however, Reserves should be set up to provide for liabilities which are known to exist, but the exact amounts of which are not definitely ascertainable. Instances of such liabilities are:—

1. A probable loss due to a lawsuit against a business which is closing its year before the judgment is given.
2. A probable loss to a business which guarantees its products against defective workmanship, which loss would arise from the necessity of replacing defective goods.

Reserves for such liabilities as the above might be termed " Reserve for (naming the action) " and " Reserve for Guarantees " respectively.

§ **327. Disposition of Profits of a Company.** The Capital of a company, as of any other business, is the excess of Assets over Liabilities. In Company Accounting, however, the Capital *Stock* Account never changes from the par value of the stock outstanding. Thus the real capital of a company is composed of the total of two items:—

1. The Capital Stock.
2. The accumulated profits which have not been paid out in dividends. In the case of accumulated losses, these would be deducted from the Capital Stock to ascertain the Capital, as shown in the Balance Sheet on page 268).

The accumulated profits which have not been paid out in dividends or otherwise appropriated appear in the Profit and Loss Appropriation Account. This account is not closed, as in the case of a partnership where it is usually closed to the credit of the partners' accounts. The directors of a company usually meet at the end of each financial year and decide how the profits are to be appropriated. They usually pay out a portion of them in dividends, while in many cases a further portion is set aside as a "Reserve Fund." Their action results in the following Journal entries:—

Profit and Loss Appropriation Account	*Dr.*	For the dividend.
To Dividend Account	*Cr.*	
Profit and Loss Appropriation Account	*Dr.*	For the amount set aside as a Reserve Fund.
To Reserve Fund	*Cr.*	

The Dividend Account is debited with the checks issued to shareholders in payment of the dividend, which has the effect of balancing the account. The Reserve Fund remains open, however, and always shows a credit balance. The following example illustrates the entries:—

EXAMPLE.

The profits of a company for its first year in business were $10,000. The Directors appropriated this as follows:—

5% Dividend (on $100,000 Capital Stock), payable Jan. 31.

$3,000 to be transferred to Reserve Fund.

Balance carried forward.

For its second year in business the company's profits were $15,000. The Directors made the following appropriations:—

7% Dividend, payable Jan. 31.

$9,000 to be transferred to Reserve Fund.

Balance carried forward.

Show the accounts affected.

ANSWER.

Dr. PROFIT AND LOSS APPROPRIATION. *Cr.*

Dec. 31.	Dividend No. 1—5%	$5,000.00	Dec. 31.	Profits for year from Profit and Loss Acct.	$10,000.00
,,	Transferred to Reserve Fund	3,000.00			
,,	Balance down	2,000.00			
		$10,000.00			$10,000.00
Dec. 31.	Dividend No. 2—7%	7,000.00	Jan. 1.	Balance	2,000.00
,,	Transferred to Reserve Fund	9,000.00	Dec. 31.	Profits for year from Profit and Loss Acct.	15,000.00
,,	Balance down	1,000.00			
		$17,000.00			$17,000.00
			Jan. 1.	Balance	1,000.00

DIVIDEND.

Jan. 31. Total of Checks from Cash Book	$5,000.00	Dec. 31. No. 1—5%	$5,000.00
Jan. 31. Total of Checks from Cash Book	7,000.00	Dec. 31. No. 2—7%	7,000.00

Dr.	RESERVE	FUND.	*Cr.*
Dec. 31. Balance down	$12,000.00	Dec. 31. Appropriation	$3,000.00
		Dec. 31. ,,	9,000.00
	$12,000.00		$12,000.00
		Jan. 1. Balance	12,000.00

From the above it will be seen that the Capital of a company is composed of:—

1. The Capital Stock	$100,000
2. The Reserve Fund	12,000
3. The Unappropriated Profits	1,000
	$113,000

It is also evident that the only difference between the balances at the credit of Reserve Fund and Profit and Loss Appropriation is that the former has been set aside by the Directors as *not* available for dividend, while the latter has not. *Both are accumulated profits.* The Reserve Fund, in effect, has been permanently added to the Capital.

§ 328. **Reserve Funds Seldom Met With Except in Companies.** While Reserve Funds are occasionally met with in the accounts of businesses conducted by individuals and partnerships, they are so rare in this connection that the term Reserve Fund is regarded almost exclusively as a company accounting term. As stated above, in companies the entry creating a Reserve Fund arises from a formal resolution of the Directors duly recorded in the minutes.

§ 329. **Reserve Funds a Sign of Conservative Financing.** When a Directorate sets aside an ample proportion of the profits of the company as a Reserve Fund, shareholders, prospective shareholders, creditors, bankers, and other interested parties regard it as conservative and prudent financing. On this account, by showing Reserves on the Balance Sheet in such a way as to give the impression that they are Reserve Funds, many Directors attempt to give the appearance that the companies are carefully financed. It is due to this fact that many accountants are commencing to use the word "Provision," or an equivalent term, instead of "Reserve," leaving the term Reserve, whether followed by the word Fund or not, to indicate a *real* Reserve Fund, that is, profits set aside when they might have been paid out as dividends. This practice is to be commended.

§ 330. **Some Profits Credited Direct to Reserve Fund.** While all profits *may* be credited to Profit and Loss Account, it is regarded as a conservative and commendable practice to credit direct to Reserve Fund certain extraordinary profits that are not regarded as being fairly available for dividends. An instance of this sort—a profit on shares of Capital Stock forfeited—is given in the following section.

§ 331. **Reserves and Reserve Funds on Balance Sheet.** A Reserve for the expected loss on the realization of an asset should be shown on the Asset side of the Balance Sheet as a deduction from the Asset whose value it has the effect of reducing. Reserves for expected liabilities should be shown in the Liabilities section.

Reserve Funds, being part of the Capital, should be shown as such on the Balance Sheet, that is, under the caption "Shareholders' Interest," "Capital," "Surplus," or a similar heading.

§ **332. Calculating Depreciation.** There are several different methods of calculating Depreciation. You are already familiar with the method, which is by far the most common, by which an equal annual percentage of the cost of the asset is written off, such percentage being based on the life of the asset. While the other methods are useful in some instances, they are not sufficiently common to warrant their consideration in this work.

§ **333. Bonds—Debentures.** For the purpose of your work the terms " Bond " and " Debenture " may be regarded as synonymous. They are formal documents under seal by which a company promises to pay at some future time a specified sum of money, together with interest thereon in the meantime. The principal sum is usually of relatively small even amount (the most common denominations being $100, $500, and $1,000), so as to make them attractive to investors. They are usually secured by a mortgage on some or all of the company's assets, and as the date of payment is usually a considerable number of years from the date of issue, they are regarded as a valuable means of raising money to finance a company. They may be payable to bearer or to a specified person. If payable to bearer, they have interest " coupons " attached, which are cut off periodically and presented by the bearer at a bank, where they are cashed. Besides being used by companies as a means of borrowing money, they are the chief means by which Municipalities and Governments borrow funds. In fact, the issues of " Victory Bonds " of the Dominion of Canada have had such a wide circulation that many students are already familiar with this type of security.

§ **334. Sinking Funds.** A Sinking Fund is, normally, a special Reserve Fund accumulated for the redemption of a debt (e.g. a bond issue) at maturity. It is accumulated by means of a series of equal annual charges to Profit and Loss Appropriation Account. An amount equal to this charge is each year invested outside the business, usually by depositing it with a Trustee for the bondholders. The interest on this outside investment is also credited to the Sinking Fund and added to the investment. The annual charge against Profit and Loss Appropriation Account is so calculated that at the maturity of the bond issue (or other liability) the sum of the annual appropriations, plus the compound interest on the investment thereof, will equal the amount of the liability and thus be available for its discharge. The asset resulting from the investment outside the business of an amount equivalent to the Sinking Fund is known as the " Sinking Fund Investment Account." As the operation of a Sinking Fund is a matter of advanced accounting, the authors will content themselves with the above brief explanation.

§ **335. Investment of Reserves and Reserve Funds.** In addition to Sinking Funds it is sometimes found that for the purpose of accumulating other Reserves and Reserve Funds in *cash* or other quick assets, corresponding investments are made outside the business. When this is done the corresponding asset would be known :—

(*a*) If an investment of a Reserve Fund as " Reserve Fund Investment Account " ;

(*b*) If an investment of a Reserve as " Reserve for Depreciation Investment Account " (or equivalent title).

§ **336. Secret Reserves.** Where a company has understated the value of its assets or overstated the amount of its liabilities by means of excessive charges to Profit and Loss Account, it is said to have created a Secret Reserve. A Secret Reserve is a Reserve Fund which is not disclosed in the accounts, but is concealed in the manner outlined by making the financial position of the company as shown by its Balance Sheet appear to be poorer than it actually is. The authors do not consider the practice of creating Secret Reserves to be proper in any business where the student is likely to have charge of the books. The practice is upheld, however, by some accountants of standing in the case of banks and financial companies, for reasons which hardly come within the scope of this work.

§ **337. Terminology.** As mentioned in the introduction to this section, there is considerable variation in the terminology used by accountants in dealing with Reserves and Reserve Funds. The following are the chief differences :—

To prevent confusion with Reserve Funds, some accountants advocate dropping the term " Reserve " and using such expressions as (*a*) Provision for Bad Debts, (*b*) Allowance for

Bad Debts, (*c*) Appropriation for Bad Debts. Other accountants advocate limiting the term "Reserve Fund" to a Reserve Fund which is separately invested outside the business, claiming that when the public see the word "Fund" they think of it as a separately invested Reserve Fund. This school would refer to a Reserve Fund that is not separately invested as a "Reserve" or "Reserve Account."

Basing their opinions on the same argument, another group of accountants would use the terms "Reserve Fund" and "Sinking Fund" in place of "Reserve Fund Investment Account," and "Sinking Fund Investment Account," and would refer to a "Reserve Fund" as a "Reserve" or "Reserve Account," and to a "Sinking Fund" as a "Sinking Fund Reserve." A bank would commonly refer to its Reserve Fund as a "Rest."

The term "Reserve for Contingencies" is sometimes used. It may be either a Reserve or a Reserve Fund, depending on whether it is intended to meet a probable loss or liability or some future contingency which has not yet arisen.

In the United States, the term "surplus" is commonly used as a title for the unappropriated profits of a company. In Canada, however, this title is not greatly used. It is sometimes used in the American sense, but frequently is synonymous with "Capital."

EXAMINATION, SECTION 23.

1. What are the differences between a "Reserve" and a "Reserve Fund"?
2. How should "Reserves" and "Reserve Funds" appear on the Balance Sheet?
3. What is a Bond?
4. What is a Sinking Fund? Explain briefly its operation and usual purpose.
5. A telephone company, which has made large profits in one year, which profits it desires to conceal in order to offset a possible agitation for a reduction in telephone rates, writes off three times as much depreciation as is reasonably necessary. What is this known as? Do you consider it proper?
6. How are the profits of a company disposed of?
7. Under ordinary circumstances, would you consider it a wise action for the Directors of a company to set aside (say) one quarter of the profits as a Reserve Fund?
8. Are any profits credited *direct* to Reserve Fund? If so, what type of profits?

The following review questions are taken from the Primary Examinations of the Institute of Chartered Accountants of Ontario.

9. Draw up a form of Bills Receivable Book suitable for a concern that sells merchandise subject to a cash discount. Explain how totals are posted at end of month.
10. The Trial Balance of Weaver Brothers on Jan. 15, 19 , is as follows:—

Cash on Hand	$150.00	
Balance at Bank	100.00	
Accounts Receivable	2,500.00	
Merchandise	20,000.00	
Furniture and Fixtures	2,000.00	
Bank Bills Payable		$1,500.00
Trade Bills Payable		3,000.00
Accounts Payable		2,500.00
Provision for Bad Debts		300.00
Provision for Depreciation, Furniture and Fixtures		600.00
James Weaver, Capital A/c		6,425.00
John Weaver, Capital A/c		6,425.00
Merchandise Purchases	30,000.00	
Merchandise Sales		40,000.00
Expense	6,000.00	
	$60,750.00	$60,750.00

Mdse. on hand, Jan. 15, $21,000.00.

The brothers, having decided to form a limited liability company to take over and carry on their business, obtain a charter and the following subscriptions, viz. :—

James Weaver, 1 share	$100.00
John Weaver, 1 share	100.00
Wm. Jones, 50 shares	5,000.00
Henry Smith, 40 shares	4,000.00
Charles Green, 20 shares	2,000.00

The company has an authorized capital of $40,000.00 and is organized Jan. 15, and on that date one-half of each of the subscriptions is paid in, and on the same date the business and goodwill of Weaver Brothers is acquired with all its assets and liabilities. The purchase price is $20,000.00, one-quarter being paid in cash and three-quarters in paid-up stock of the company.

(*a*) Make the Journal entries necessary to open the books of the company (which is named the Weaver Brothers Company Limited), and to record all the transactions of the company stated in the question.

(*b*) Prepare a Balance Sheet of Weaver Brothers Limited to show the Directors the exact position of the company after all the stated transactions have taken place.

(*c*) Make the Journal entries necessary to close the books of the old business.

(*d*) Prepare a Balance Sheet and Profit and Loss Account for the old business after all the stated transactions have taken place and the books closed—the Profit and Loss Account to be so divided as to clearly show the Gross Profit, the Net Profit in regular trading, and any special gain or loss outside of the regular trading.

Section 24

TRANSACTIONS FOR THE MONTH OF FEBRUARY

The books to be used are the same as those used in January.

Feb. 1. Received check from Peoples Stationery Co. for $40.00 in response to our letter of Jan. 12, together with an order to be shipped c.o.d. Their letter explains that the difference of $1.60 is in lieu of interest. Make a Journal entry for the interest. No exchange on the check when deposited.

Feb. 1. Drew on James Long at sight to cover sale on Jan. 4 on which the terms were S/D less 2%. Through oversight you did not draw the sight draft. The draft you are now drawing is calculated as follows:—

Amount of Account	$......
Less 2% disc.	......
	......
Plus interest from Jan. 4 to Feb. 1 at 7% p.a.	.....
Amount of draft	$849.79

Charge interest to James Long through the Journal. Deposited draft. Exchange deducted by the bank, $1.06.

Feb. 1. Extract from the Minutes of Meeting of Board of Directors :—

"The Secretary-Treasurer reported that the heavy expenditure in stocking the new lines of text-books together with the poor business during January had resulted in a large bank overdraft during the last few days of January, which at the end of the month amounted to $19,278.27. The bank had allowed this to run as an overdraft for the few remaining days in January in order to allow the company to prepare its interim Balance Sheet, but, of course, they now require security. The bank have now stated that they will require that all customers having open accounts be drawn on at once and also on the 10th, 20th, and last of each month for the amounts of their accounts, less discount, if any. In addition to this they will lend the company up to 50% of the value of stock in-trade, such loans to be secured under section 88 of the Bank Act. It was decided that the bank's requirements be carried out in future."

§ **338. Loans from Banks.** The lending of money to business concerns is one of the chief businesses in which banks are permitted by law to engage. Banks do not, however, lend money on the security of mortgages on fixed assets, although they may at times take mortgages on fixed assets as additional security for loans. The main lending function of the banks is the making of loans on the security of current assets. Loans of this type are ordinarily quickly repaid, while loans on fixed assets usually remain outstanding for relatively long periods. You are already familiar with the common method of making loans—that is where the bank discounts the Bills Receivable of the borrower. Discounted customers' bills do not show in the books of the borrower as a loan but rather as a *sale* of the bills to the bank. It is important to remember, however, that the borrower is indirectly liable on such discounted paper, so that in effect it constitutes a loan from the bank.

In addition to discounting customers' paper, banks also lend money on notes of the borrower, and these also are usually discounted. You are already familiar with the entries for such loans which have been kept in a separate account entitled "Bank Bills Payable." Banks usually require some security for loans such as these, as the borrower's note does not completely protect them in the case of bankruptcy. Such security is known as "Collateral

Security," and, as pointed out above, ordinarily consists of current assets. The following are typical forms of collateral:—

1. Bills Receivable on collection with the bank.
2. An assignment to the bank of the borrower's book debts, particularly in cases where trade custom does not permit of drafts being drawn on customers.
3. Negotiable "warehouse receipts," which are receipts issued by a warehousing company for merchandise in storage, such goods being deliverable only to the holder of the warehouse receipt.
4. An assignment to the bank of the borrower's stock-in-trade. Where a bank is secured in this manner it is said to be "Secured under section 88 of the Bank Act," as it is section 88 of this Act which authorizes this type of security.

Feb. 1. Discounted drafts on customers as follows (less 7% discount):—

Customers.	*Date.*	*Time.*	*Amt. of Draft.*	*Credited by Bank.*
C. R. Andrews	Jan. 4	30 days	$710.50	$709.82
G. R. Arnold	" 8	30 "	431.20	430.55
Henry Bell & Co.	" 15	30 "	1,761.06	1,755.64
Robt. Duncan & Co.	" 29	30 "	807.52	802.88
C. E. Mann	Dec. 8	60 "	3,158.50	3,153.65
" "	Jan. 15	30 "	386.61	385.42
Geo. Miller	Dec. 8	60 "	1,526.00	1,523.66
Geo. R. Moore	" 8	60 "	409.00	408.37
Robt. Morrison	Jan. 22	30 "	1,852.20	1,844.03
J. D. Russell & Co.	" 29	30 "	715.60	711.49
				$11,725.51

NOTE.—Enter the above direct in the Cash Book. No Bills Receivable Book is to be kept by Adams & Gordon, Ltd.

§ **339. Bills Receivable Book.** Where all drafts on customers are discounted as soon as they are drawn—and this is the practice with a great many concerns—the Bills Receivable Book is often omitted entirely. Drafts are entered in the Cash Book and posted from that book to the credit of the customers' accounts, instead of to the credit of Bills Receivable. The Cash Book entry, in such cases, is as follows:—

Bank Dr. (for the net amount credited by the bank).
Interest Dr. (for the discount charged by the bank).
Discount on Sales Dr. (for the cash discount, if any, allowed the customer).
To Accounts Receivable Cr. (for the amount of the customer's account which is covered by the draft).

When crediting a customer's personal account for a draft, care should be taken to make a note in the explanation space on the account that a draft has been drawn, and to record the due date. This should be done in all such cases, but it is particularly necessary where drafts are credited directly from the Cash Book, because if neglected the credit is likely to be mistaken for a cash remittance. Such a mistake might lead to a customer's being given more credit than he is entitled to.

Feb. 1. Discounted company's own note for $10,000.00 at one month. Bank charges 7% disc. Proceeds $9,940.55. Gave an assignment of stock-in-trade under section 88 of the Bank Act as collateral.

Feb. 2. Check issued: No. 14, Irish & Johnson, $378.80.

Feb. 3. Certified invoices received:—

Feb. 3. Patterson & Co. Your address, 2/10 n/30. 200 Journals #412, 500 pp., @ $3.00–$600.00;

Feb. 3. Canadian Typewriter Co. Your address, 2/10, n/30. 1 used Burroughs Adding Machine, $150.00.

Feb. 3. Arrangements have been made with Taylor & Co., Ltd., Kingston, Jamaica, B.W.I., to handle the company's goods on consignment in the West Indies. Adams & Gordon, Ltd., are to be charged with all expenses of the consignments, and Taylor & Co., Ltd., are to receive a commission of 5% on all sales. Taylor & Co., Ltd., are to guarantee all collections. The Current Account is to bear 7% interest. Shipped consignment #1 to-day and mailed *pro forma* invoice as follows :—

YOUR ADDRESS. Feb. 3. 19--.

INVOICE OF Text Books

CONSIGNED TO Taylor & Co., Ltd.,
Kingston, Jamaica, B.W.I.

TO BE SOLD FOR ACCOUNT AND RISK OF

ADAMS & GORDON, LIMITED.
CONSIGNORS

SHIPPED VIA CPR & SS Canadian Trader INSURED AND PREPAID

500	N. M. Arithmetic	@ 11/6	£287	10	--
500	Business Letter Writing	7/6	187	10	--
500	Office Routine	6/6	162	10	--
500	Tales and Sketches	8/6	212	10	--
500	Filing Systems	11/6	287	10	--
500	Canadian Bus. Spellers	3/9	93	15	--
			£1,231	5	--

Illustration No. 190 *Pro forma*[1] Invoice

NOTE.—The prices in the above *pro forma* invoice are *not* cost prices, but are *those expected to be realized* in Sterling from the sale of the goods in the West Indies. Cost prices are as follows in the order shown : \$1.92, \$1.25, \$1.00, \$1.50, \$2.00, \$.64, all plus ½% for freight from Toronto.

Make a Journal entry for the above consignment.

Feb. 3. Drew on Taylor & Co., Ltd., for half the amount of the above *pro forma* invoice and discounted draft, which is for a period of 1 month. Draft realized (at \$4.80 to the £) \$2,955.00 less 7% disct., \$2,937.43.

NOTE.—Open Taylor & Co.'s account in the General Ledger. Rule an extra column for sterling as described in § 301 and enter both £ and \$ when posting. Adjust exchange at the end of each consignment.

Feb. 3. Checks issued :—

No. 15. Canadian Pacific Railway. Land and ocean freight on Consignment #1, \$250.00.

No. 16. Irish & Johnson Marine insurance on Con. #1, \$100.00.

No. 17. Independent Lumber Co. Specially constructed cases for Consignment, #1, \$400.00.

[1] A *pro forma* Invoice is sometimes called an Invoice of Shipment or a Consignment Invoice.

Feb. 3. Extract from Minutes of Directors' Meeting :—

"The Secretary reported the receipt of an application for 10 shares of Capital Stock from A. N. Sharp, together with his check for $100.00. It was decided to allot these shares to Mr. Sharp, and the Secretary was instructed to make a call for the balance of $900.00 due thereon."

Enter the allotment and the check.

§ **340. Calls.** In our work to date we have assumed that the subscriber to capital stock was liable to pay for his shares as soon as the allotment was made, as is usually the case. Actually the subscriber is only liable to pay when required to do so by the Directors. A demand for payment by the Directors is known as a "*Call.*" Usually a call for the full amount is made, as above, at the time of the allotment. In this case your entries are unchanged. Neither need you change your entries for the reason that special terms of payment are given in one or two special cases, such as in the case of Student and Wm. Fraser, both employees, who are being allowed to pay for their shares at the rate of $50 each every pay day.

Sometimes, however, payment for all or a large part of the shares sold is called in instalments payable at definite dates, and sometimes only part of the selling price of the shares is called and the balance left open to be called at any, but on no particular, future date. Under these circumstances, Subscribers' Account can be split up into a number of accounts to advantage. For instance, a company on Jan. 1 allots $100,000 of shares payable 10% on allotment, 10% monthly for four months, and the balance whenever called. The entry would be :—

Subscribers—Call No. 1, due Jan. 1, 19	$10,000.00	
,, ,, No. 2, due Feb. 1, 19	10,000.00	
,, ,, No. 3, due Mar. 1, 19	10,000.00	
,, ,, No. 4, due Apr. 1, 19	10,000.00	
,, ,, No. 5, due May 1, 19	10,000.00	
,, Uncalled Subscriptions	50,000.00	
To Capital Stock		$100,000.00

Cash received in payment of any call would be credited to the Subscribers' Account for that call, so that at any time the various Subscribers' Accounts would show the amount of payments in arrears on any call which had fallen due. The Uncalled Subscriptions Account would be credited and Calls No. 6, No. 7, No. 8, etc., debited with future calls as they are made.

Where shares are payable in definite calls to each shareholder is usually issued an instalment receipt or scrip when each instalment is paid. He holds these receipts until all instalments are paid, at which time he may exchange them for a share certificate. An Instalment Scrip is shown in Illustration No. 191.

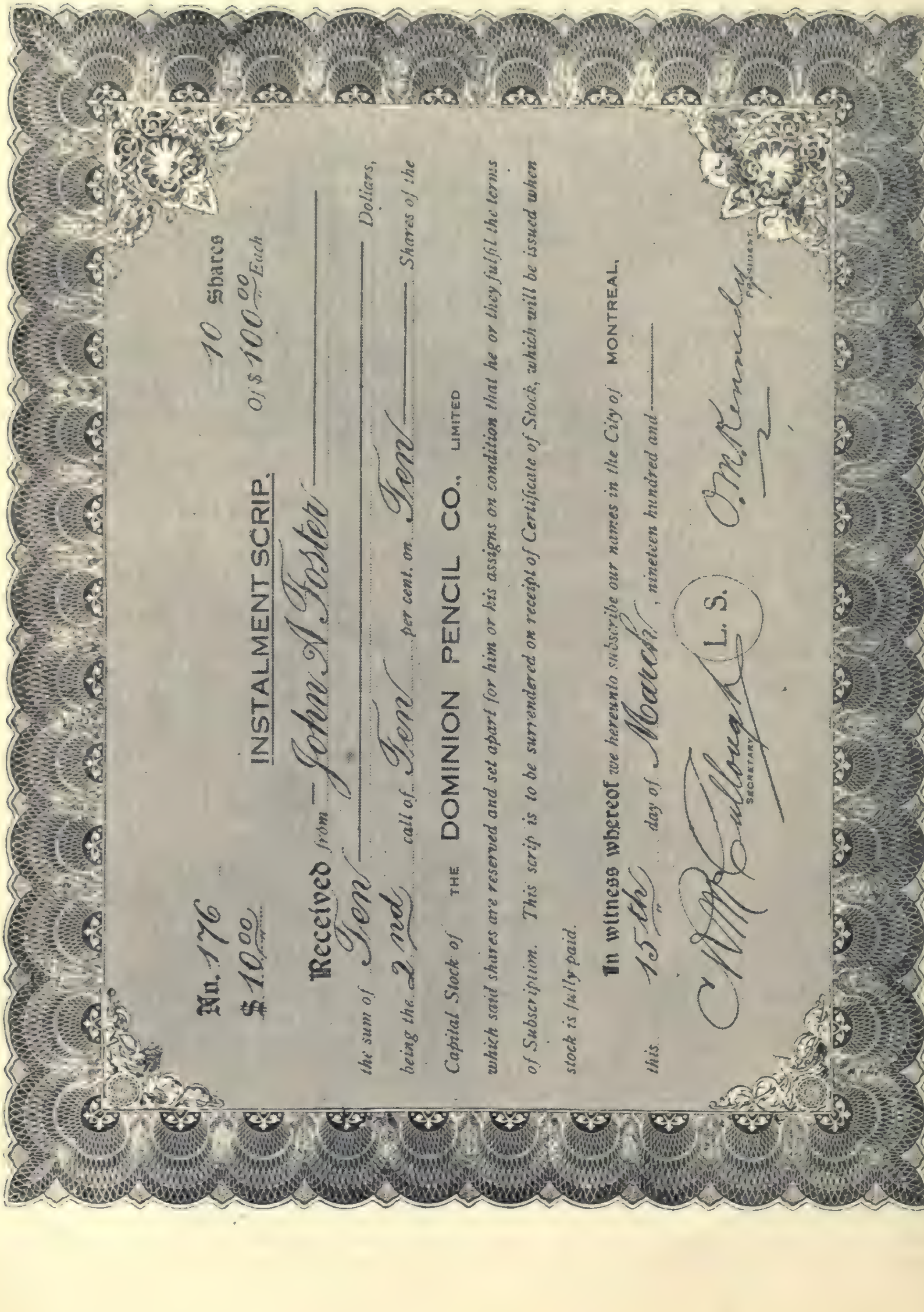
Feb. 5. Certified Invoice Received: Feb. 5. Canadian Typewriter Co., your address. Repairing 1 used Burroughs Adding Machine, $25.00.

NOTE.—This refers to the adding machine that was purchased on Feb. 3.

§ **341. Capital Expenditures *v*. Revenue Expenditures.** Expenditures which properly result in charges to one of the Fixed Asset accounts (e.g. Land, Buildings, Delivery Equipment) are known as "*Capital Expenditures.*" Expenditures which properly result in charges to one of the Nominal accounts (e.g. Repairs and Renewals, Salaries, Rent) are known as "*Revenue Expenditures.*"

These terms arise from the fact that Capital Expenditures are investments of *Capital* made for the purpose of acquiring equipment *with which to carry on the business*, while Revenue Expenditures are made for merchandise, services, and supplies which are *sold or consumed in the process of earning Revenue.*

It is not always easy to distinguish between Capital and Revenue Expenditures for the reason that expenditures which would ordinarily be Revenue Expenditures may under certain circumstances be properly treated as Capital Expenditures. In the same way items which



No. 176

$10.00

INSTALMENT SCRIP.

10 Shares
Of $100.00 Each

Received from John A. Foster

the sum of Ten Dollars,

being the 2nd call of Ten per cent. on Ten Shares of the

Capital Stock of THE DOMINION PENCIL CO., LIMITED

which said shares are reserved and set apart for him or his assigns on condition that he or they fulfil the terms of Subscription. This scrip is to be surrendered on receipt of Certificate of Stock, which will be issued when stock is fully paid.

In witness whereof we hereunto subscribe our names in the City of MONTREAL, this 15th day of March, nineteen hundred and——

L. S.

SECRETARY. PRESIDENT.

Illustration No. 191 Instalment Scrip

would ordinarily be Capital Expenditures may really be Revenue Expenditures. A few examples will make the point clear :—

(*a*) Repairs and Renewals are ordinarily Revenue Expenditures. Supposing, however, a company buys a second-hand motor truck to be used for delivery purposes. *Before the truck can be used* it has to be repaired. Repairs, in this case, *add to the cost of the truck*, and are, therefore, Capital Expenditures. That is, they should be charged to Delivery Equipment Account.

(*b*) Supposing, instead of taking the truck to a garage to be repaired, the company employs a mechanic on salary and this mechanic makes the repairs. The mechanic's salary (while repairing the truck), which would ordinarily be charged to Salaries (or Wages) Account, would in this case be a Capital Expenditure and chargeable to Delivery Equipment.

(*c*) One might be pardoned for assuming that such an expenditure as Rent could never be a Capital Expenditure. The following example will illustrate how Rent *may* be a Capital Expenditure. Supposing a company requires a motor boat for use in making deliveries at an island summer resort. It decides to build the boat itself, partly because it considers it more economical and partly in order to obtain a boat especially designed for the purpose for which it is required. The company temporarily rents a boathouse in which to build the boat. *Rent in this case is a Capital Expenditure*, being part of the cost of the motor boat.

On the contrary—

(*d*) Expenditure for Delivery Equipment is ordinarily a Capital Expenditure. Supposing, however, a company which manufactures washing machines offers to give a motor truck as a prize to the dealer who has in one month the largest percentage of increase in the sales of washing machines over the previous month. The cost of the motor truck, in this case, is a Revenue Expenditure and properly chargeable to Selling Expenses.

From the above examples it will be seen that in deciding whether an expenditure is properly chargeable to an Asset or to a Profit and Loss Account, the question to consider is *not what is purchased* but *what is the purpose of the expenditure*. The following rule may be safely followed :—

> All expenditures made in creating, acquiring, improving or extending the equipment of a business are *Capital Expenditures*. All other expenditures, and particularly expenditures for the purpose of maintaining such equipment, are *Revenue Expenditures*.

Feb. 5. Check issued : No. 18. Jones & Simpson, $460.00.

Feb. 5. Drew on Peoples Stationery Co. in accordance with terms of sale made to them to-day. Deposited draft. Exchange charged, 77c.

Feb. 6. Not having received any reply to our letter of Jan. 30 from Russell & Brown, we again wrote them to-day, threatening to sue unless we have a satisfactory reply immediately.

Feb. 6. Check issued : No. 19. Rogers Coal Co., 4 tons Coal @ $12 – $48.00.

Feb. 7. Drafts accepted :

Canadian Typewriter Co. Feb. 5. 10 days' favor, Canadian Bank of Commerce, $171.50 ;

Patterson & Co. Feb. 3. 10 days' favor, Imperial Bank, $588.00.

Feb. 8. Check received : C. E. Mann, $3,158.50.

Feb. 8. Exchange charged by bank on to-day's deposit, $3.94.

Feb. 9. Debit slip received from bank, C. E. Mann ; draft returned unaccepted, $3,158.50.

Feb. 10. Draft accepted : Patterson & Co. Jan. 21. 30 days' favor, Imperial Bank, $275.00, bearing interest at 7%.

Feb. 10. Discounted drafts at 7% discount on following :—

Customers.	*Date.*	*Time.*	*Amt. of Draft.*	*Credited by Bank.*
John Holt	Feb. 2	30 days	$2,376.50	$2,365.11
Davis & Bell	„ 5	„	313.60	311.92
				$2,677.03

Feb. 10. Received cablegram from Spaulding & Co., Liverpool, as follows :—

" Shipment four tons Jute Twines en route Montreal. Just advised buyer bankrupt. Will you dispose of if still time to prevent delivery. Terms 5% commission, *del credere*. Six per cent interest. Reply collect."

The company has wired Spaulding & Co. accepting the above consignment, and asking them to notify the transportation company to deliver to Adams & Gordon, Ltd., instead of to the Montreal buyers. The company has also written confirming the terms, viz., that the consignment is to be handled on a 5% commission, Adams & Gordon, Ltd., to guarantee all book debts and the account current to bear 6% interest.

§ **342. Del Credere.** A " del credere " agent is one who not only sells goods for his principal but also guarantees the collection of all book debts. In some cases he receives a separate commission for this in addition to his selling commission, in which case the separate commission is termed a del credere commission.

Feb. 11. A letter is received from James Long stating that, while he has paid our sight draft of the 1st, he cannot see why he should be charged with interest on a delayed payment which was due to our oversight. As this seems reasonable it is decided to credit him with the interest that was charged him. Make a Journal entry.

Feb. 11. Check issued : No. 20, James Long (for credit balance in his Sales Ledger Account), $4.54.

Feb. 12. Received a check for $800.00 payable at par on account from Russell & Brown, together with a request to hold the balance of the account over for thirty days without drawing. They state that they will be able to settle in full with interest at that time.

Feb. 15. Checks issued : No. 21, Payroll, George Adams, $100.00 ; Henry Gordon, $75.00 ; Travellers, $540.00 ; Office, 250.00 ; Warehouse, $175.00 ; Total $1,140.00. No. 22, Travelling Expenses, $214.40.

Feb. 15. Checks received on account of subscriptions to Capital Stock : Student, $50.00 ; Wm. Fraser, $50.00.

Feb. 16. Received from Spaulding & Co. the shipment referred to in cables and letter of the 10th inst. Issued following checks in connection therewith : No. 23, C.P.R. for freight and cartage to warehouse, $100.00. No. 24, Collector of Customs for duty, $67.50.

NOTE.—An extra column can be ruled on one of your General Ledger Sheets to accommodate the Interest column in Spaulding & Co.'s account current. Do not confuse this account with Spaulding & Co.'s account in your Purchase Ledger.

Feb. 18. Debit slip received from bank : John Holt draft returned unaccepted marked " Draw at 60 days," $2,376.50. Credit slip received from bank : rebate of interest on John Holt, draft, $7.75.

NOTE.—In charging back returned drafts that have been drawn less cash discount do not forget to make a Journal entry charging the customer with the cash discount with which he was previously credited.

Feb. 18. Discounted a new draft on John Holt at 60 days from Feb. 2 for $2,425.00. Realized $2,403.14 after deducting bank's charge of 7%.

Feb. 20. Check issued : No. 25, C.P.R. for freight on Commercial Text Book Co. Invoice of Feb. 19, $19.00.

Feb. 20. Check from warehouse for Cash Sale, $38.00.

Feb. 20. Check received on account of subscription to Capital Stock : J. R. Jones, $400.00. Issued him Certificate No. 17 for 10 shares.

Feb. 20. Discounted drafts at 7% discount on the following :—

Customer.	*Date.*	*Time.*	*Amt. of Draft.*	*Credited by Bank.*
C. E. Mann	Feb. 12	30 days	$1,027.04	$1,022.12
W. K. Wright	,,	,,	748.72	745.13
W. A. Murray	Feb. 19	,,	430.22	427.58
A. C. Graham & Co.	,,	,,	1,014.30	1,008.08
R. Brown	,,	,,	548.80	545.44
				$3,748.35

Feb. 20. Jones & Co., who purchased some goods for cash yesterday, complain that they should have received 2% Cash Discount, which they claim we quoted them over the 'phone. Their messenger had a blank check which he filled in for the full amount, not knowing there was a discount. Mr. Gordon instructs you that their claim is correct. Issued Check No. 26 for 76c. in settlement.

Feb. 20. A letter has been received from The Dominion Pencil Co., in which they state that our traveller, Mr. Fraser, when in Montreal recently ran short of funds, and that they advanced him $50.00. They have charged this amount to our account to be included in their next draft on us. Mr. Fraser advises us that this is correct and that he will deduct the $50.00 from his Feb. 28 expense bill. Make a Journal entry.

Feb. 21. Certified invoices received : Feb. 19, Commercial Text Book Co., Toronto, 2/10, n/30, f.o.b. Toronto, 2,000 Arithmetic, New Method @ $1.92 – $3,840.00 ; Casing, $25.00 ; Total, $3,865.00. Feb. 20, Grand & Jones, your address, 2/10, n/30, 1 Roll Kraft Wrapping Paper, $15.00 ; 25 lbs. Nails (for Warehouse), $2.00 ; Total, $17.00. Feb. 20, W. J. Gray, your address, n/30, 1 M Letter-heads, $8.00 ; 1 M Envelopes to match, $7.50 ; Total, $15.50.

Feb. 21. Sold the entire shipment of Twine from Spaulding & Co. to The Lake Superior Milling Co. for $1,600.00 spot cash. Received their marked check in settlement.

NOTE.—Credit " commission " to a new account, " Commissions Earned—Stationery."

Feb. 22. Draft, accepted :

Commercial Text Book Co. Feb. 19. 10 days' favor of Bank of Montreal, $3,787.70.

Grand & Jones. Feb. 20. 10 days' favor of Imperial Bank, $16.66.

Feb. 23. Extract from Minutes of Directors' Meeting :—

" The Secretary reported that he had made the call on A. N. Sharp as instructed by the Directors at their meeting of Feb. 3, but Mr. Sharp had not paid the balance on his shares. In fact he had stated that he had changed his mind and does not now intend to take the shares. It was resolved that the shares allotted to Mr. Sharp be forfeited for non-payment of call and that Mr. Sharp be duly notified to that effect."

§ **343. Forfeited Shares.** When a shareholder neglects or refuses to pay a call in the time and manner provided, the Directors may, by resolution duly recorded in the minutes, forfeit such shares. Such forfeited shares become the property of the company, who can dispose of them at less than par if it is deemed advisable, always providing it realizes not less than the amount for which the original shareholder was in arrears. In the event of forfeiture, any cash that has been paid to the company by the shareholder whose shares are forfeited becomes the property of the company. The entry for shares forfeited is as follows :—

Capital Stock *Dr.*
(for the amount of the allotment which is automatically cancelled when the shares are forfeited).

To Subscribers *Cr.*
(for the amount still due on the shares forfeited. This credit will balance the shareholder's account in the Share Ledger).

To Profit on Shares Forfeited *Cr.*
(for the cash that had been received on the shares and which now becomes the property of the company).

If the company should take advantage of its right to sell the forfeited shares at less than par, the entry would be as follows :—

Subscribers *Dr.*
(for the amount that the new subscriber agrees to pay for the shares).

Profit on Shares Forfeited *Dr.*
(for the discount below par value at which the shares are sold).

To Capital Stock *Cr.*
(for the par value of the shares).

From the above entries it will be seen that the net profit on forfeited shares is shown in the "Profit on Shares Forfeited" Account. This profit may be closed to Profit and Loss Account, although it is considered more conservative to close it to Reserve Fund (see § 330).

It is optional with the Directors whether or not they will forfeit shares for non-payment of calls. They have the right if they so desire to sue the shareholder and force him to carry out his contract to take the shares.

Feb. 23. In making the entry for the Trade Bill Payable falling due to-day, the student will note that it bears interest. This will increase the amount to be credited to the bank, but you will not know whether or not the amount of the bill and interest which you have calculated agrees with the amount charged by the bank until the bank statement has been returned at the end of the month, unless you ascertain the amount from the bank ledger-keeper. In practice you would probably do this, and we will therefore assume that you have inquired and have found the bank has charged the company's account with $276.73.

Feb. 26. Complete Spaulding & Co.'s Account Current to date and ascertain the amount of the check to be remitted to them to close the account. Make the entry for interest. Issued check No. 27 to College Bank for a bank draft on London. Amount of check $1,353.47. (The exchange, which is borne by Spaulding & Co., is deducted by the bank and a sterling draft issued for the balance.)

Feb. 26. Extract from Minutes of Directors' Meeting :—

"The Secretary reported that he has received from Wm. Fraser an offer of $95.00 a share for the 10 shares which has been subscribed for by A. N. Sharp and which had been forfeited. It was decided that the 10 shares in question be allotted to Wm. Fraser at $95.00 a share, and the Secretary was instructed to call the entire amount."

Feb. 27. Check received on account of subscription to Capital Stock : Wm. Fraser, $950.00. Issued him Certificate No. 18 for 10 shares.

Feb. 27. Checks issued :—

No. 28. Dominion Express Co., for express on Sales Invoice #200, $15.00.
No. 29. Canadian Pacific Railway Co., for freight on Sales Invoice #206, $10.00.

Feb. 28. Certified Invoice received: Feb. 28. Automobile Supply Co., your address. n/30. Gas, Oil, and Repairs, $30.00.

Feb. 28. Certificate received for transfer :—

No. 14. George Adams, 20 shares, 10 transferred to Henry Gordon ; issued new certificate No. 19 to Henry Gordon for 10 shares, and No. 20 to George Adams for 10 shares.

Feb. 28. Debit Slip received from bank :—
R. Brown draft returned unaccepted, marked " Draw at 60 days," \$548.80.
Credit Slip received from bank :—
Rebate of interest on R. Brown draft, \$2.52.

Feb. 28. Discounted a new draft on R. Brown at 60 days from Feb. 19 for \$560. Realized \$554.20, after deducting bank's charge of 7%.

Feb. 20. Checks issued :—
No. 30. Payroll, George Adams, \$100.00 ; Henry Gordon, \$75.00 ; Travellers, \$540.00 ; Office, \$250.00 ; Warehouse, \$175.00 ; Total, \$1,140.00.
No. 31. Travelling Expenses, \$159.38 (after deducting the \$50.00 loaned by Dom. Pencil Co.).
No. 32. W. J. Gray, \$34.00.
No. 33. Automobile Supply Co., \$29.00.

Feb. 28. Checks received on account of subscriptions to Capital Stock : Student, \$50.00 ; William Fraser, \$50.00.

Feb. 28. Discounted drafts at 7% discount on the following :—

Customer.	*Date.*	*Time.*	*Amt. of Draft.*	*Credited by Bank.*
George Miller	Feb. 26	30 days	\$1,840.44	\$1,829.50
A. R. Dow	,,	,,	229.32	227.96
George R. Moore	,,	,,	640.92	637.11
				\$2,694.57

Feb. 28. Check issued : No. 34, Petty Cash, \$16.20. Distribution as per Petty Cash Sheet :—

General Expense	\$5.00
Office Supplies	2.00
Warehouse Supplies	1.20
Delivery Expense	8.00
	\$16.20

Feb. 28. Received from the bank the statement shown in Illustration No. 192.

After having completed your entries to date proceed as follows :—

1. Have your Cash Book entries checked, then close and complete posting for the month.
2. Prepare a Bank Reconciliation.
3. Close your Purchase Journal and complete the posting for the month.
4. Close your Bills Payable Book and complete the posting for the month.
5. Recapitulate your Sales Record and complete the posting for the month.
6. Have all your work to date checked.
7. Do not close your Journal as there are some further entries.

Feb. 28. Received the following Account Sales from Taylor & Co. (in practice this would not be received until about March 10).

	Feb. 28, 19		
500 N.M. Arithmetic	@ 12/-		£300 - -
500 Business Letter Writing	,, 8/-		200 - -
250 Office Routine	,, 6/-		75 - -
500 Tales and Sketches	,, 9/-		225 - -
Less—			£800 - -
Delivery and Dock Charges		£20 - -	
Commission, 5%		40 - -	
			£60 - -
			£740 - -

NOTE.—Enter the above in the Journal at \$4.90 to the £.

EXPLANATION OF CHARACTERS
D – Discounts Credited
CL – Collections Credited
C/C – Certified Check
RT – Returned Item
DM – Debit Memo
INT – Interest
EC – Error Corrected
LST – Total of Several Checks
OD – Overdraft

STATEMENT OF ACCOUNT — PERIOD ENDING Feb. 28, 19--

Adams & Gordon, Limited,
Your Place,
Canada.

IN ACCOUNT WITH

THE COLLEGE BANK OF CANADA

25 VOUCHERS RETURNED — KINDLY NOTIFY THE BANK OF ANY CHANGE OF ADDRESS

OLD BALANCE	CHECKS IN DETAIL	DEPOSITS	NEW BALANCE
	BALANCE BROUGHT FORWARD →		FEB 1 19,227.77 OD
19,227.77 –	FEB 1 135.50 EC –	FEB 1 100.00	
		FEB 1 40.00	
		FEB 1 848.73	FEB 1 18,374.54 OD
18,374.54 –	FEB 2 15.00 –	FEB 2 11,725.51 D	
		FEB 2 9,940.55 D	FEB 2 3,276.52
3,276.52	FEB 3 40.00 –	FEB 3 100.00	FEB 3 3,336.52
3,336.52	FEB 4 378.80 – 100.00 –	FEB 4 2,937.43 D	FEB 4 5,795.15
5,795.15	FEB 5 250.00 –	FEB 5 611.73	FEB 5 6,156.88
6,156.88	FEB 7 460.00 – 48.00 –		FEB 7 5,648.88
5,648.88		FEB 8 3,154.56	FEB 8 8,803.44
8,803.44	FEB 9 3,158.50 RT –		FEB 9 5,644.94
5,644.94		FEB 10 2,677.03 D	FEB 10 8,321.97
8,321.97		FEB 13 800.00	FEB 13 9,121.97
9,121.97	FEB 15 214.40 – 1,140.00 –		FEB 15 7,767.57
7,767.57	FEB 16 67.50 – 588.00 –	FEB 16 100.00	FEB 16 7,212.07
7,212.07	FEB 18 2,376.50 RT –	FEB 18 7.75 CM	FEB 18 4,843.32
4,843.32	FEB 19 100.00 – 171.50 –	FEB 19 2,403.14 D	FEB 19 6,974.96
6,974.96		FEB 20 438.00	FEB 20 7,412.96
7,412.96		FEB 21 3,748.35 D	FEB 21 11,161.31
11,161.31	FEB 21 .76 –	FEB 22 1,600.00	FEB 22 12,760.55
12,760.55	FEB 24 276.73 –		FEB 24 12,483.82
12,483.82	FEB 26 1,353.47 –		FEB 26 11,130.35
11,130.35	FEB 28 10.00 – 15.00 – 548.80 RT –	FEB 28 950.00	
	FEB 28 159.38 – 1,140.00 – 16.20 –	FEB 28 2.52 CM	
		FEB 28 554.20	FEB 28 10,747.69

PLEASE EXAMINE AT ONCE AND REPORT ANY DIFFERENCE IN THE STATEMENT DIRECT TO THE ACCOUNTANT

The last amount in this column is your balance at the end of the period above mentioned.

Illustration No. 192. Bank Statement for February.

Feb. 28. The unsold portion of Consignment No. 1 to Taylor & Co. is worth at least cost. Make an entry to bring Consignment Account up to cost as described in § 321, calculating as follows :—

Cost (at your address) of all goods shipped		$ A
Cost (at your address) of goods still unsold :		
...Office Routine @ $...	$....	
...Filing Systems ,, $...	$....	
...C.B. Spellers ,, $...	$....	
	$....	
Plus ½% Freight in	$....	
		$ B
Cost (in Jamaica) of all goods shipped :		
Cost at your address as above	$ A	
Freight, insurance, cases, delivery and dock charges	$....	
		$ C

$$\frac{B}{A} \times C = \text{Cost (in Jamaica) of goods still unsold.}$$

NOTE.—The profit on the consignment is to be credited to " Profits on Consignments—Text Books."

After making the above entry rule Consignment No. 1 Account and bring down the balance.

Feb. 28. Make entries for the February proportion of Insurance, Mortgage Interest, and Organization Expenses.

Feb. 28. Make an entry for the February reserves for depreciation, using the same rates as were used in January, and basing on the balances of the several Fixed Asset accounts.

Feb. 28. After making a careful survey, not only of the open accounts receivable, but of the bills receivable under discount, you decide that all the bills under discount are good and that the account with Russell & Brown is the only doubtful one. You therefore decide that the present necessary Reserve for Bad Debts can be calculated as follows :—

25% on Russell & Brown account of \$..... = \$......

Make a Journal entry to bring Reserve for Bad Debts up to this amount.

Feb. 28. Supplies on hand :—

Advertising Materials	\$30.00
Coal	72.00
Office Supplies	20.00
Warehouse Supplies	55.00

Make the usual entry. Don't forget to make the reversing entry *now* on March 1.

Feb. 28. Make a Journal entry to close the Profit on Forfeited Shares to the credit of Reserve Fund.

After having completed the above remaining entries for the month proceed as follows :—

1. Have your Journal entries checked.
2. Close and post your Journal in the same manner as last month.
3. Foot and balance your Ledger accounts.
4. Take off a General Ledger Trial Balance.
5. Prove your Sales Ledger.

NOTE.—Deduct credit balances from debit balances.

6. Prove your Purchase Ledger.
7. Prove your Share Ledger.
8. Complete your Expense Ledger for month and prove in the same manner as last month.
9. Prove the balance of the Bills Payable Account.

Feb. 28. The merchandise on hand as shown by the Perpetual Inventory is as follows : Text Books, \$7,237.56 ; Stationery, \$26,561.61.

Prepare an interim Profit and Loss Account and Balance Sheet, using the same forms as were used last month, but incorporating any new items. Do these statements in pencil first and have them checked by your teacher before copying in ink.

Do not close your Ledger.

NOTE.—There is certain prepaid interest on drafts discounted, and also interest on Taylor & Co.'s current account which need not be considered in preparing the interim financial statements. It is customary to disregard accrued and prepaid interest in preparing interim statements unless it is of important amount.

EXAMINATION, SECTION 24.

1. If you were in business and required a short-date loan to be secured by current assets, to whom would you apply ? If you required some money for five years on a mortgage on a building would you expect to obtain the loan from the same source ?
2. Name four typical examples of Collateral Security for Bank Loans.
3. Is the Bills Receivable Book necessary where all drafts are discounted as soon as drawn ? If not, explain how you would get along without it.

4 Give the Journal entries necessary to record the following :—

April 1. Allotted $500,000. Capital Stock, payable $10 a share on allotment, balance in two equal instalments of $45 a share, payable May 1 and June 1.
April 1. Received $49,000 on account Call No. 1.
May 1. Received $220,000 on account Call No. 2 and $500 on account Call No. 1.
June 1. Received $219,000 on account Call No. 3 and $2,000 on account Call No. 2.
How much is still due on the above allotment of Capital Stock on June 2, and how much is overdue and unpaid on each call ?

5. Distinguish between Capital and Revenue Expenditures, giving examples showing how the cost of repairing an electric motor might be either.

6. Under what circumstances may shares be forfeited ?

7. What becomes of any sums of money that may have been paid in by a subscriber on shares that are forfeited ?

8. May forfeited shares be re-issued ? At what price per share ?

The following review questions are taken from the Primary and Intermediate Examinations of the Institute of Chartered Accountants of Ontario respectively.

9. At the end of three months, on listing the unpaid Bills Payable as shown by the Bills Payable Book, you find that the total of the list does not agree with the balance as called for by the General Ledger. Explain what you would do to locate this difference, it being understood that the Bills Payable were in balance at the beginning of period.

10. John Jones keeps his Creditors' Ledger on the self-balancing principle. From the following particulars write up the Purchase Ledger Balancing Account in the General Ledger :—

Mar.	1.	Open Accounts on this date	$10,475.86
„	31.	Cash paid creditors for month	5,395.81
		Goods returned	121.45
		Goods purchased	7,939.86
		Discounts Obtained	89.35
		Bills Accepted	2,785.00
		Sale made to Creditor	15.00
		Interest charged by creditors on acceptances renewed	30.40
		Bills due, not met during month	396.85

Section 25

SINGLE ENTRY BOOKKEEPING

§ 344. **Single Entry *v*. Double Entry.** You are already quite familiar with the Double Entry System of Bookkeeping. It is the method that recognizes the fact that every business transaction affects at least two accounts :—

1. The account or accounts which receive the benefit ;
2. The account or accounts which yield the benefit.

The recognition of this twofold aspect of every business transaction results in each entry having equal debits and credits, hence the term "*Double* Entry." This equality of debits and credits enables the bookkeeper to prove his work by means of a Trial Balance, and to prepare a complete Balance Sheet and Profit and Loss Account.

Strictly speaking, Single Entry bookkeeping is the method which recognizes *only one* aspect of each business transaction, namely, the personal aspect, hence the term "*Single* Entry." The only object of Single Entry bookkeeping is to keep a record of the transactions with debtors and creditors in the form of personal accounts. Impersonal and nominal accounts are simply omitted. It will be obvious that this method does not enable the bookkeeper to prove his work by means of a Trial Balance, as the debits and credits *will not* agree. Neither can a Balance Sheet nor a Profit and Loss Account be prepared, as no impersonal or nominal accounts are kept.

§ 345. **Single Entry Incomplete.** While the term "Single Entry" originally referred to the system of bookkeeping which recognized only the personal aspect of each transaction, common usage now applies the term to *any incomplete method* of bookkeeping. Single Entry bookkeeping by reason of its incompleteness is gradually disappearing, and is to-day seldom found in business establishments of any importance, although it is still occasionally used by small traders who keep their own books, and by uninformed bookkeepers. For this reason there would be little practical advantage in studying Single Entry at all, were it not for the fact that the bookkeeper is occasionally called on to : (*a*) Explain why Double Entry is superior to Single Entry ; (*b*) Ascertain the position and profits of a concern whose books are incomplete ; and (*c*) Convert Single Entry books to Double Entry. This work necessitates some knowledge of Single Entry methods.

§ 346. **Single Entry Methods.** In some concerns which use Single Entry methods the only book kept is a Ledger in which are kept accounts with debtors and creditors, there being no impersonal or nominal accounts. Entries are made direct in the Ledger instead of being posted from a book of original entry.

In addition to the Ledger a Cash Book is often kept, from which all entries affecting personal accounts are posted to the Ledger. The Cash Book may be in any form but it seldom contains discount columns, discounts being entered direct in the Ledger.

Sometimes Purchase and Sales Books are kept, but these are seldom totalled, being used solely as a medium from which posting is done to the personal accounts in the Ledger.

Other books of original entry are sometimes found and in some cases a few accounts that are not personal accounts are kept in the Ledger. In fact Single Entry may take almost any form depending on the desire of the proprietor or the bookkeeper. It will invariably be found that many impersonal and nominal accounts are not kept. Thus, any incomplete system of bookkeeping is known as Single Entry.

§ **347. Advantages of Double Entry Bookkeeping.** The advantages of the Double Entry system over incomplete or Single Entry bookkeeping may be briefly outlined as follows :—

1. The arithmetical accuracy of accounts kept by Double Entry can be substantially proved by means of a Trial Balance. Errors that would be discovered by a Trial Balance frequently remain undiscovered in Single Entry bookkeeping.
2. The financial position and profits of a business which keeps its accounts by Double Entry can be determined with a high degree of accuracy. While both can be determined from books kept by Single Entry, the data available is of such a meagre and unscientific nature that the results can only be regarded as approximate.
3. Double Entry books not only show the amount of the net profit but also give, in the nominal accounts, data from which a classified Profit and Loss Account can be prepared showing *how* such profit was earned. Single Entry books, which exclude nominal accounts, do not furnish this information.
4. The risk of fraud is considerably greater in Single Entry bookkeeping owing to the relative difficulty of discovering it.
5. Some laymen have the impression that the Double Entry system involves *twice* as much work as Single Entry. This of course is quite erroneous. Modern methods enable books to be kept by Double Entry with little, if any, more labor than Single Entry.

§ **348. Balance Sheet. Statement of Affairs.** A Balance Sheet is a statement of the Assets, Liabilities, and Capital of a business prepared from a set of books kept by Double Entry. A Statement of Affairs or a Statement of Assets and Liabilities is a statement similar to a Balance Sheet but *not* prepared from Double Entry books. The term " Statement of Affairs " is also used to a great extent as applying to a statement of the liabilities and assets of a bankrupt.

§ **349. Ascertaining Financial Position and Profits from Single Entry Books.** When preparing a Statement of Affairs, it will be found in many cases that the only assets and liabilities shown by the books are Accounts Receivable and Payable, although if a Cash Book is kept, the Cash and Bank Balances can be determined. Other assets and liabilities must be determined from inventories, any memoranda that is available, and from inquiry. It is obvious that there is a considerable risk of error or omission in a Statement prepared in this manner so that great care should be taken in obtaining the information for a Statement of Affairs in order to have it as accurate as possible. As in a Balance Sheet, the excess of Assets over Liabilities will be the Capital to be shown on the Statement of Affairs.

The method of determining the profit from Single Entry books is best illustrated by an example :—

Example.

The following is a Statement of Affairs of James Willis as at Dec. 31, 19 :—

James Willis

STATEMENT OF AFFAIRS AS AT DECEMBER 31, 19

Assets.		*Liabilities.*	
Bank Balance	$500.00	Accounts Payable	$1,000.00
Accounts Receivable	1,500.00		
Inventory of Merchandise	1,000.00	*Capital.*	
Furniture and Fixtures	600.00	Surplus of Assets over Liabilities	2,600.00
	$3,600.00		$3,600.00

A year later another s'atement is prepared as follows :—

James Willis

STATEMENT OF AFFAIRS AS AT DECEMBER 31, 19 .

Assets.		*Liabilities.*	
Bank Balance	$1,000.00	Accounts Payable	$900.00
Accounts Receivable	1,400.00		
Inventory of Merchandise	1,200.00	*Capital.*	
Furniture and Fixtures	550.00	Surplus of Assets over Liabilities	3,250.00
	$4,150.00		$4,150.00

During the year Mr. Willis withdrew from the business $1,000.00. What were his profits for the year ?

James Willis.

STATEMENT OF PROFITS FOR YEAR 19 .

Capital, Dec. 31, 19	$3,250.00
Drawings during 19	1,000.00
	4,250.00
Less Capital, Dec. 31, 19	2,600.00
Profit for 19	$1,650.00

It will be noted from the above example that Drawings are *added* to the Capital at the end of the year for the reason that if no Drawings had been made the Capital would have been that much greater. Additions to Investment made during the year, having an effect exactly opposite to Drawings, would be *deducted* from the Capital at the end of the year.

While the above statement shows the profits accurately, providing both Statements of Affairs are accurate, it cannot be regarded as satisfactory, as it gives no information as to *how* the profit was earned.

§ **350. Partnership.** In a partnership, where the factors of interest on capital or partners' salaries may be encountered, the problem of determining profits and preparing a Statement of Affairs may be somewhat more complicated. The following example will illustrate the method to be used.

EXAMPLE.

Jones and Smith are in partnership sharing profits equally after allowing 7% interest on capital invested at the beginning of each year. The books have been kept by Single Entry, but it is ascertained that their investments at the commencement of the year under review were : Jones $3,000 ; Smith $2,000. At the end of the year they have Assets $10,000 ; Liabilities $4,000. Drawings during the year have been : Jones $400 ; Smith $250. Interest has not as yet been credited. Prepare :

(*a*) Statement of Profits ;

(*b*) Partners' accounts (not necessary to divide into Capital and Current Accounts) ;

(*c*) Statement of Affairs.

ANSWER.

(*a*) Jones & Smith.

STATEMENT OF PROFITS.

Capital at end of year:		
Assets	$10,000.00	
Liabilities	4,000.00	
		$6,000.00
Drawings during year:		
Jones	400.00	
Smith	250.00	
		650.00
		6,650.00
Less Capital at commencement of year:		
Jones	3,000.00	
Smith	2,000.00	
		5,000.00
Profit for year before allowing interest		1,650.00
Interest on Capital:		
Jones: 7% of $3,000	210.00	
Smith: 7% of $2,000	140.00	
		350.00
Profit to be divided: Jones $650, Smith $650		1,300.00

(*b*) Jones.

Drawings	$400.00	Original Capital	$3,000.00
Balance down	3,460.00	Interest	210.00
		Share of Profit	650.00
	$3,860.00		$3,860.00
		Balance	3,460.00

Smith.

Drawings	$250.00	Original Capital	$2,000.00
Balance down	2,540.00	Interest	140.00
		Share of Profit	650.00
	$2,790.00		$2,790.00
		Balance	2,540.00

(*c*) Jones & Smith.

STATEMENT OF AFFAIRS.

Sundry Assets	$10,000.00	Sundry Liabilities		$4,000.00
		Jones: Capital	3,460.00	
		Smith: Capital	2,540.00	
				6,000.00
	$10,000.00			$10,000.00

§ 351. **Changing from Single to Double Entry at a Given Date.** The process of changing a set of books from Single Entry to Double Entry at a given date is quite simple, and may be outlined as follows :—

First, prepare a correct Statement of Affairs at the date at which it is desired to make the change.

Second, open new accounts in the Ledger for all Assets and Liabilities not already represented by accounts, together with Capital Accounts for the proprietors.

Third, proceed to keep the books by Double Entry.

§ 352. **Converting Single Entry to Double Entry for a Given Period.** A problem that is occasionally met with in connection with Single Entry arises as follows : A business has kept its accounts by Single Entry for, say, its first year in existence. At the end of the year the manager is shown the advantages of Double Entry and decides to change to that system. In order that the business may have the advantage of Double Entry accounts from the commencement, he wishes to go back over the year and convert the Single Entry accounts to Double Entry *for the year* instead of at the end of the year.

When confronted with such a problem, the usual procedure is to make a complete analysis of the Single Entry accounts commencing with the opening Statement of Affairs. For those transactions which have not already had a double entry, an entry is then made to complete the double entry. These entries are usually made on analysis sheets and summarized. When the analysis is completed the summarized entries shown on the analysis sheets are totalled and entered in the books, which should then balance. The procedure to be adopted in making the analysis will vary in each case according to the nature of the records that are available, and consequently will not be dealt with further in this work.

EXAMINATION, SECTION 25.

1. What is the difference between Single Entry and Double Entry bookkeeping ?
2. Which do you consider the better ? What are the advantages of the plan you advocate ?
3. What is a Statement of Affairs ? How does it differ from a Balance Sheet ?
4. Thompson and Brown commenced business on January 1, investing cash to the amount of $5,000 and $4,000 respectively. The partnership agreement calls for an equal division of profits or losses after allowing 6% interest on the capital employed at the beginning of each financial year. On December 31 you are instructed to prepare a Statement of Affairs and a Statement of Profits (or Losses), together with Partners' Accounts. You ascertain the following facts :—

Ledger Balances.

	Dr.	*Cr.*
Smith & Co.	$560.00	
Hamilton Co., Ltd.		$402.05
Johnston Bros.	424.22	
Wm. Semple	241.32	
Arthur Dingle	1,010.00	
Forsythe & Co., Ltd.		500.00

All accounts receivable are collectible.

Other Data.

Inventory of Merchandise	$6,010.00
Appraised value of Furniture, Fixtures, and Equipment (after allowing for Depreciation)	725.00
Bank Balance	427.00
Inventory of Advertising Supplies	75.00
Unexpired Insurance	56.00
Trade Bills Payable	650.00
Thompson—Drawings during year	500.00
Brown—Further investment during year	400.00

Prepare the required statements and accounts.

5. Referring to the previous question, after you have completed the work indicated, the partners decide to have the accounts kept by Double Entry in future.

State, giving details, the further steps you would take to accomplish their wishes.

The following review questions are taken from the Primary and Intermediate Examinations of the Institute of Chartered Accountants of Ontario, respectively :—

6. Goode, Riche & Smith have been in partnership for 6 months and their Trial Balance at April 30, 19 , is as follows :—

Accounts Payable		$687.00
Accounts Receivable	$11,523.00	
Bills Receivable	2,600.00	
Bills Payable		1,000.00
Bank Balance	2,800.00	
General Expenses	29,892.00	
Gross Profit		45,260.00
Motor Cars	6,400.00	
Inventory Mdse., April 30, 19	32,732.00	
Salaries	6,000.00	
Goode—Capital Account		20,000.00
Riche— ,, ,,		15,000.00
Smith— ,, ,,		10,000.00
	$91,947.00	$91,947.00

They divide profits equally. Interest at 6% per annum to be credited on Capital Accounts. Depreciation to be written off motor cars at 25% per annum.

You are requested to draw up the Profit and Loss Account showing how the Net Profit is divided, and also Balance Sheet at April 30, 19 .

NOTE.—Draft the Profit and Loss Account in "Account" form.

7. A limited company issued a prospectus under the provisions of the Ontario Company's Act, inviting subscriptions for ten thousand $100 shares, payable $10 per share on application, $20 on allotment, $30 one month after allotment, and $40 four months after allotment.

Applications for 9,500 shares were received, each accompanied by $10 per share.

On allotment, shareholders of 9,490 shares only paid $20 per share.

The first call brought in $279,000.

The second call brought in $369,000 only.

Six months after the second call was made the Directors took steps that finally resulted in their forfeiting all shares not fully paid.

Draft necessary Ledger Accounts.

Section 26

BRANCH ACCOUNTS

The accounts of branches may vary considerably in form, depending on the nature of the business, the distance of the branch from the head office, the extent of the responsibilities given to the branch manager, etc. Under these circumstances, only the two most common methods of keeping branch accounts will be considered in this work.

§ **353. First Method.** Perhaps the most common method of dealing with the accounts of branches is one that bears a close resemblance to Departmental Accounts, with which you are already familiar.

Under this method, sales invoices and credit notes are made out in triplicate, one copy being sent to the customer, one retained at the branch, and the third sent to the head office. The head office copy is filed in a separate Branch Sales Binder, which is recapitulated or totalled in the same manner as that in which the head office sales are totalled, and is posted to the credit of " Merchandise Sales, ... Branch." The individual sales invoices are posted to the debit of the various accounts in the Sales Ledger, although sometimes for the sake of convenience a separate Branch Sales Ledger is opened to contain the accounts of the branch customers.

All collections are made by the head office and credited to the customers' accounts in the ordinary manner. If an occasional customer inadvertently sends a check to the branch, it is simply forwarded to the head office. Sometimes it is more convenient for collections to be made by the branch office, especially when currency is paid by customers. Under these conditions, all collections made by the branch are deposited in some local bank to the credit of the head office and a notification of all such collections and deposits forwarded to the head office. The head office can then draw on the local bank from time to time for the amount on deposit.

Invoices for merchandise purchased and sent to the branch or for expenses incurred by the branch are O.K.'d by the branch manager and sent to head office, where they are entered in an especially ruled Purchase Journal containing columns for " Merchandise Purchases, ... Branch," and " Expenses, ... Branch." The totals of the columns are posted to the debit of the respective accounts. The entries for the individual invoices, together with similar entries for purchases for the head office, are posted to the credit of the various creditors' accounts in the Purchase Ledger. Where a separate Expense Ledger is not kept, but detailed Expense Accounts are kept in the General Ledger, a separate Branch Purchase Journal is usually used, otherwise the main Purchase Journal would require such a large number of columns that it would become cumbersome. Creditors are often required to render invoices for branch purchases and expenses in duplicate so that an extra copy may be available to be filed at the branch.

All creditors' accounts are paid by the head office and charged to the Purchase Ledger accounts in the ordinary manner. A separate Petty Cash Fund is kept at the branch, thus enabling the Branch Manager to pay minor disbursements. A Branch Petty Cash Sheet with vouchers attached in the ordinary form is sent to head office monthly or at other stated periods and head office issues a check for the total of this sheet. Branch salaries, etc., may either be paid out of Branch Petty Cash or by check from head office.

In addition to the branch purchases, goods are frequently shipped from the stock at the head office to the branch. The Journal entry for such a transaction would be :—

Merchandise Purchases, ... Branch *Dr.*	.... ..	
To Merchandise Purchases, Head Office		.... ..

for the *cost* of the goods so transferred. If the number of such transfers is sufficient, a separate " Branch Shipment " binder is used and recapitulated like a Sales Binder. It is then only necessary to post the totals according to the above Journal entry instead of making a separate Journal entry for each shipment.

If the stock is of such a nature as to make it feasible, separate perpetual inventories are kept at the head office for both head office and branch.

From the above brief outline it will be seen that under this method it is not necessary to keep any books at the branch, as all the necessary accounts are incorporated in the head

office books in approximately the same manner as the accounts of a department would be kept. For this reason this method is usually used where the branch is not of sufficient size to warrant the salary of a separate bookkeeper at the branch. The method is not usually found suitable for a branch that is situated at a considerable distance from the head office on account of the delay that would occur in sending invoices, etc., backward and forward through the mails.

§ 354. **Second Method.** Another common method of keeping branch accounts is to keep a separate set of books at the branch as if the branch were a separate business.

Under this method, head office and branch stand in the position of separate businesses, and it is consequently necessary for each to have an account for the other in its books. We thus find a "Branch Account" in the head office books and a "Head Office Account" in the branch office books. The branch would keep its own Sales Record and its own Sales Ledger. It would also make its own collections, and in most cases would make its own purchases, keep its own Purchase Journal and Purchase Ledger, and pay its own accounts through its own bank account. It will thus be seen that the branch records under this method vary in only one particular from the accounts of a separate business. This difference is that the head office has a Capital Account, while the branch, since it is not a separate business, has no Capital Account, but shows on its books the capital employed by the amount standing to the credit of the head office.

HEAD OFFICE							
Jan.	31	Cash sent to Head Office for month	5,000.00	Jan.	1	Capital Invested	10,000.00
				Jan.	31	Head Office Pur. for month	5,670.00
Dec.	31	Balance down	10,275.00	Dec.	31	Profit for year	4,750.00
			127,560.00				127,560.00
				Jan.	1	Balance	10,275.00

Illustration No. 193 Head Office Account in Books of Branch

Illustration No. 193 shows a typical Head Office Account in the books of a branch. Referring to the illustration, it will be noticed that the first entry is on January 1, which is assumed to be the date on which the branch commenced business. It is a credit for $10,000, the capital invested by the head office in the branch. It might arise from a Journal entry such as the following:—

Bank	*Dr.*	$1,000	
Land and Buildings	*Dr.*	8,000	
Furniture and Fixtures	*Dr.*	1,000	
To Head Office			$10,000

It will also be noticed that there is a credit entry at the end of each month for the purchases from the head office. This posting is usually obtained in one total by having the Branch Purchase Journal ruled with two total columns as follows:—

1. Purchases from Head Office
   (Head Office *Cr.*)
2. Purchases from Creditors
   (Accounts Payable *Cr.*)

It should be noted that in some cases, even where separate books are kept at the branch, the head office makes and pays for all purchases, as in the case of method No. 1. Where this is done, there would be no necessity for two total columns in the Purchase Journal as *all* purchases would be made from the head office and there would be no necessity for any Purchase Ledger. It will also be noted that there is a debit to Head Office Account for the remittances by the branch to head office. These remittances may either be debited in detail or in monthly totals from a special column in the Branch Cash Book. The final entry is on December 31, the end of the financial year, when head office is credited with the profit for the year, or charged with the loss for the year. This would result, using the amount shown in the illustration, from the following Journal entry :—

Profit and Loss	$4,750	
To Head Office		$4,750

When this last entry has been made and the balance brought down, the Head Office Account shows a credit balance of an amount equal to the investment of the head office in the branch.

The Branch Account in the head office books would be the reverse of the Head Office Account in the branch books. It should be emphasized, however, that the entries for goods shipped to the branch from the head office are not credited in the head office books to Merchandise Sales but to *Merchandise Purchases*. This is because these goods are not sold but merely transferred to the branch, reducing the head office purchases and increasing the branch purchases.

The method of keeping Branch Accounts described above is most suitable for branches which are situated at considerable distances from the head office, and branches which have a considerable degree of independence from head office control.

§ **355. Preparation of Statements Under Second Method.** The preparation of financial statements where separate branch accounts are kept brings out some new points of interest. These will be illustrated by examples.

EXAMPLE.

The following are the Trial Balances of the books of X, Y, Z & Co., Ltd., at Winnipeg and Saskatoon respectively, as at December 31, 19 :—

HEAD OFFICE, WINNIPEG.

Bank	$5,200.00	
Accounts Receivable	10,750.00	
Saskatoon Branch	31,748.00	
Provision for Bad Debts		500.00
Merchandise Inventory, Jan. 1, 19	15,728.00	
Furniture and Fixtures	1,500.00	
Provision for Depcn. of Furniture and Fixtures		250.00
Land	3,000.00	
Buildings	7,000.00	
Provision for Depreciation of Buildings		700.00
Goodwill	50,000.00	
Accounts Payable		6,725.00
Capital Stock		75,000.00
Reserve Fund		25,000.00
Profit and Loss Appropriation, Jan. 1, 19		6,426.00
Merchandise Purchases	75,670.00	
Merchandise Sales		100,220.00
Selling Expenses	6,725.00	
General Expenses	7,500.00	
	$214,821.00	$214,821.00

Merchandise inventory, Dec. 31 : $12,570.00.
No deferred or accrued items.

BRANCH, SASKATOON.

Bank	$500.00	
Accounts Receivable	35,000.00	
Provision for Bad Debts		2,500.00
Merchandise Inventory, Jan. 1, 19	5,200.00	
Furniture and Fixtures	1,000.00	
Provision for Depreciation of Furniture and Fixtures		100.00
Accounts Payable		2,000.00
Head Office		31,748.00
Merchandise Purchases	40,000.00	
Merchandise Sales		51,552.00
Selling Expenses	3,000.00	
General Expenses	3,200.00	
	$87,900.00	$87,900.00

Merchandise Inventory, Dec. 31, 19 : $6,700.00.
No deferred or accrued items.

From the above Trial Balances prepare :—

(*a*) Profit and Loss Account, showing separately profit of the head office and the branch.

(*b*) Closing Journal entries for both head office and branch.

(*c*) Consolidated Balance Sheet.

ANSWER.

( ) X, Y, Z & Co., Limited.

PROFIT AND LOSS ACCOUNT

For Year Ending Dec. 31, 19

	Total.	*Winnipeg.*	*Saskatoon.*
Sales for year	$151,772.00	$100,220.00	$51,552.00
Inventory, Jan. 1, 19	20,928.00	15,728.00	5,200.00
Net Purchase for year	115,670.00	75,670.00	40,000.00
	136,598.00	91,398.00	45,200.00
Less Inventory, Dec. 31, 19	19,270.00	12,570.00	6,700.00
Cost of Goods Sold	$117,328.00	$78,828.00	$38,500.00

	Total.	*Winnipeg.*	*Saskatoon.*
Gross Profit	$34,444.00	$21,392.00	$13,052.00
Selling Expenses	9,725.00	6,725.00	3,000.00
General Expenses	10,700.00	7,500.00	3,200.00
Total Expenses	20,425.00	14,225.00	6,200.00
Net Profit for year	$14,019.00	$7,167.00	$6,852.00

(*b*) Closing entries in books of branch :—

Trading	$45,200.00	
To Merchandise Inventory		$5,200.00
Merchandise Purchases		40,000.00
Merchandise Sales	51,552.00	
Merchandise Inventory	6,700.00	
To Trading		58,252.00
Trading	13,052.00	
To Profit and Loss		13,052.00
Profit and Loss	6,200.00	
To Selling Expenses		3,000.00
General Expenses		3,200.00
Profit and Loss	6,852.00	
To Head Office		6,852.00

Closing entries in books of head office :—

Trading	$91,398.00	
To Merchandise Inventory		$15,728.00
Merchandise Purchases		75,670.00
Merchandise Sales	100,220.00	
Merchandise Inventory	12,570.00	
To Trading		112,790.00
Trading	21,392.00	
To Profit and Loss		21,392.00
Profit and Loss	14,225.00	
To Selling Expenses		6,725.00
General Expenses		7,500.00
Saskatoon Branch	6,852.00	
To Profit and Loss Account		6,852.00
Being the profit of the Saskatoon Branch for the year ending Dec. 31, 19 , as per Profit and Loss Account.		
Profit and Loss	$14,019.00	
To Profit and Loss Appropriation		$14,019.00
Being Profit of Company (both branches) for the year ending Dec. 31, 19 .		

In the example on page 310 it will be noted that the Branch Account in the head office books and the Head Office Account in the branch books, which are of equal amount, have been cancelled against each other and thus eliminated in preparing the Consolidated Balance Sheet. In order to cancel the Head Office and Branch Accounts, however, it is essential that they have balances which equal each other, but at the end of a financial period it is sometimes found that the balances are unequal. A case of this sort would arise in some such manner as the following :—

1. The branch may remit cash to the head office on the last day of a financial period and would consequently charge Head Office Account, but head office might not receive such remittance until, say, the 3rd of the following month. The credit to Branch Account is not normally made until the remittance is received by the head office, so that at the end of the accounting period the Head Office Account in the branch books and the Branch Account in the head office books would differ to the extent of the remittance in transit.
2. Similarly, head office might ship goods to the branch on the last day of an accounting period, which goods would not be received by the branch until the following period. This also would result in a difference between the balances of the two accounts of the amount of the goods in transit.

When differences such as the above are discovered it is necessary to make adjustment entries which will have the effect of balancing the Head Office and Branch Accounts before

(c)

X, Y, Z & Co., Limited.
BALANCE SHEET as at Dec. 31, 19

Assets.

Current Assets.				
Bank Balances:				
Winnipeg		$5,200.00		
Saskatoon		500.00	$5,700.00	
Accounts Receivable:				
Winnipeg		10,750.00		
Saskatoon		35,000.00		
		45,750.00		
Less Provision for Bad Debts:				
Winnipeg	$500.00			
Saskatoon	2,500.00	3,000.00	42,750.00	
Merchandise Inventory:				
Winnipeg		12,570.00		
Saskatoon		6,700.00	19,270.00	$67,720.00
Land, Buildings, and Equipment.				
Land (Winnipeg)			3,000.00	
Buildings (Winnipeg)		7,000.00		
Less Provision for Deprecn.		700.00	6,300.00	
Furniture and Fixtures:				
Winnipeg		1,500.00		
Saskatoon		1,000.00		
		2,500.00		
Less Provision for Depreciation:				
Winnipeg	$250.00			
Saskatoon	100.00	350.00	2,150.00	11,450.00
Goodwill				50,000.00
				$129,170.00

Liabilities.

Accounts Payable:		
Winnipeg	$6,725.00	
Saskatoon	2,000.00	$8,725.00
Shareholders' Interest:		
Capital Stock	$75,000.00	
Reserve Fund	25,000.00	
Unappropriated Profits	20,445.00	120,445.00
		$129,170.00

NOTE.—In a Balance Sheet prepared for publication, the details as to the location of the Assets and Liabilities should be omitted. In this case the Balance Sheet will not reveal the fact that the business is divided into branches or that separate sets of books are kept.

proceeding to prepare the financial statements. While these adjustment entries may be made in either head office or branch books, it is usually more convenient to make them in the head office books, and this plan only will be illustrated.

The entry to adjust a difference due to cash in transit, as mentioned on page 309, would be as follows :—

Cash in transit	*Dr.* $.... ..	
To Branch Account		$.... ..

While No. 2, on page 309, would be adjusted as follows :—

Merchandise in transit	*Dr.* $.... ..	
To Branch Account		$.... ..

When adjustment entries such as these have been made, it will be found that the Branch Account in the head office books and the Head Office Account in the branch books will agree, and the financial statements and closing entries can then be proceeded with along the lines illustrated in the above example. Adjustments such as the above would be reversed on the first day of the following period in the same manner as entries for deferred and accrued items are reversed.

Where a company has more than one branch it will often be found that in addition to the accounts between the head office and the branches there are also accounts between the branches themselves. Such inter-branch accounts are eliminated in the same manner as that in which the Head Office and Branch Accounts are eliminated.

§ **356. Variation in Methods.** While the two methods of keeping Branch Accounts outlined in this section are the most common and best suited for businesses which have but few branches, concerns which make a special business of selling goods through a large number of retail stores (e.g. a chain of tobacco stores) usually adopt methods specially suited for the particular type of business in which they are engaged. These methods may vary considerably from those we have outlined for such reasons as the following :—

1. Such stores usually sell only for cash.
2. It is usually desired to charge goods to the branch at selling prices rather than at cost, so that branch store employees may not know the cost of the goods.
3. There is seldom any bookkeeper at the branch store; in fact, there is seldom any employee capable of doing clerical work.

Special problems also arise in connection with the accounts of foreign branches, but these are problems in foreign exchange rather than in Branch Accounting. Variations of the two common methods of keeping branch accounts are also occasionally met with. It is not possible, however, in the space at our disposal to deal further with the variations referred to above.

EXAMINATION, SECTION 26.

1. From the following Trial Balance of the Knox Co., Ltd., prepare Profit and Loss Account and Balance Sheet. Profit and Loss Account to be prepared in " account " form with columns to show the results for each branch as well as the totals.

Petty Cash—Winnipeg	$2,500.00	
Petty Cash—Brandon	2,500.00	
Bank	427.00	
Accounts Receivable	10,065.00	
Provision for Bad Debts		$165.00
Inventory, 1st Jan., 19 —Winnipeg	10,270.00	
Brandon	6,420.00	
Furniture and Fixtures—Winnipeg	2,270.00	
Brandon	2,000.00	
Carried Forward	$36,452.00	$165.00

Brought Forward	$36,452.00	$165.00
Provision for Depreciation of Furniture and Fixtures—		
Winnipeg		564.00
Brandon		500.00
Accounts Payable		3,170.00
Capital Stock		10,000.00
Profit and Loss Appropriation, 1st, Jan., 19		267.00
Purchases—Winnipeg	29,460.00	
Brandon	20,620.00	
Sales—Winnipeg		48,020.00
Brandon		29,265.00
Expenses—Winnipeg	6,835.00	
Brandon	3,584.00	
	$91,951.00	$91,951.00

Inventories, Dec. 31: Winnipeg, $6,425; Brandon, $7,250. 10% Depreciation to be provided for on Furniture and Fixtures. Accrued Salaries: Winnipeg, $500; Brandon, $275. Not yet provided for.

2. The following transactions between a head office and a branch which keeps a separate set of books occurred during the month of January. Write up the Branch Account as it would appear in the head office books and bring down the balance.

Jan. 1. Branch commenced business with the following investments by head office:—

Land and Buildings	$10,000.00
Cash	1,000.00
Equipment	2,000.00
Merchandise	6,000.00

Jan. 3. Head office remitted branch $500.

Jan. 5. Head office paid certain accounts for branch, total $650.

Jan. 7. Branch remitted head office $1,000.

Jan. 10. Head office shipped to branch merchandise which cost $600.

Jan. 12. Branch paid certain accounts for head office, total $300.

Jan. 15. Branch returned merchandise to head office, $200.

Jan. 31. End of company's financial year. Loss of branch for period of operation as per Branch Profit and Loss Account is $625.

3. The following are the Trial Balances of a company's books at Montreal and Sherbrooke respectively. Show revised Trial Balances after the books have been properly closed (but before any reversing entries have been made).

MONTREAL.

Bank	$567.00	
Accounts Receivable	5,678.00	
Sherbrooke Branch	8,765.00	
Merchandise Inventory, Jan. 1, 19	9,270.00	
Furniture and Fixtures	3,000.00	
Accounts Payable		2,000.00
Capital Stock		20,000.00
Merchandise Purchases	35,007.00	
Merchandise Sales		46,757.00
Expenses	6,470.00	
	$68,757.00	$68,757.00

SHERBROOKE.

Bank	$200.00	
Accounts Receivable	6,270.00	
Merchandise Inventory, Jan. 1, 19	3,267.00	
Furniture and Fixtures	2,000.00	
Accounts Payable		$3,261.00
Head Office		8,000.00
Merchandise Purchases	26,700.00	
„ Sales		32,376.00
Expenses	5,200.00	
	$43,637.00	$43,637.00

Inventories, Dec. 31, 19 : Montreal, $10,500 ; Sherbrooke, $6,270.

Prepaid Insurance, which has been charged to Expenses : Montreal, $200 ; Sherbrooke, $100.

On Dec. 31, Montreal shipped Sherbrooke merchandise to the amount of $765, which was not received at Sherbrooke until Jan. 2.

Depreciation not yet provided for—10% of Furniture and Fixtures.

Bad Debts „ „ „ 5% of Accounts Receivable.

The following review questions are taken from the Primary and Intermediate Examinations of the Institute of Chartered Accountants of Ontario respectively:—

4. Brant & Lane close business as follows : Cash on hand, $400 ; in Bank, $3,000. Notes on hand, $1,200 ; Sundry Debtors, $600 ; Goods on hand, $2,100 ; Furniture, $800 ; less 10% for Depreciation. They owe notes payable $300, and on open accounts $500. At beginning, Brant had : Assets $4,500 and Liabilities $400. He withdrew $200 and is allowed interest on his investment $250. Lane began with Assets of $4,000 and Liabilities of $1,200. He added to his investment $700 and is allowed interest $170. They share gains and losses equally.
   Make out a statement of Assets and Liabilities, and show the Capital Accounts properly closed.

5. An exporting house consigns goods abroad to a firm of agents, who sell on 5% commission.

   Draft accounts showing the necessary entries for the following transactions :—

   (*a*) In the books of the consignors.
   (*b*) In the books of the consignees.

   Consignors send goods which cost them $9,000 (but which should realize about 25% more), and have to pay $180 Freight and Shipping Charges.

   Consignees acknowledge receipt of the goods and advise sale of half for $5,500. Later, consignees return one-ninth of the goods as unsuitable, advise sale of balance for $4,500, and advise insurance and other charges (payable by consignors), $10, and remit.

Section 27

TRANSACTIONS FOR THE MONTH OF MARCH.

The books to be used are the same as those used in January and February.

March 1. William Forrester, who has been carrying on the same business as that in which Adams & Gordon, Ltd., is engaged, in the city of .... (Eastern students should fill in here the name of some Western city and Western students the name of some Eastern city), has arranged to sell out his business to Adams & Gordon, Ltd., on the following terms: Mr. Forrester is to be paid cash for the excess of his assets (including goodwill) over liabilities. The amount at which goodwill is to be valued is to be the amount by which the profits of the business during the two years that Mr. Forrester has been in business exceed $1,500.00 a year, this being the estimated value of Mr. Forrester's own services to the business for which he has been paid no salary. It is agreed by both parties that you are to have access to Mr. Forrester's books and that you are to determine the amount to be paid Mr. Forrester for the business, which is to be transferred as from Feb. 28, 19 .

You are now at Mr. Forrester's office and have found that he has kept only incomplete records of his transactions. You have ascertained, however, the following facts regarding his business:—

1. Business has been in operation for 2 years ending Feb. 28, 19 .
2. When the business commenced, Mr. Forrester invested cash $3,000.
3. During the two years Mr. Forrester has made further investments amounting in all to $1,000.00.
4. During the two years Mr. Forrester has withdrawn from the business $800.00.
5. The bank balance at Feb. 28 is $235.00.
6. The Accounts Payable at Feb. 28 total $1,670.00.
7. The Accounts Receivable at Feb. 28 total $2,550.00. All considered good.
8. The value of the Furniture and Fixtures after allowing for depreciation is $2,500.00 at Feb. 28, 19 .
9. The value of the Stock-in-Trade at Feb. 28, as shown by the inventory, is $3,333.00 (Text Books, $1,564.00; Stationery, $1,769.00).
10. The Prepaid Insurance Premiums at Feb. 28, 19 , amount to $55.00.

Prepare a Statement of Affairs of the business showing a surplus which will be equal to the amount of cash to be paid Mr. Forrester under the agreement of sale, also a statement showing how you arrived at the valuation of goodwill. Have these statements checked by your teacher.

March 1. Check issued: No. 35, to W. Forrester, $7,806.00.

NOTE.—It has been decided to carry on the business purchased from Mr. Forrester as a branch under the management of Mr. Gordon. A separate set of books is to be kept at the branch as described in § 354, and the above payment should be treated accordingly. A bookkeeper is employed at the branch to keep its books. The branch books are to be kept in accordance with the same methods as you now use in keeping the head office books. Prepare opening Journal entry which you would send to the branch bookkeeper to enable him to open the branch books and have this entry checked by your teacher.

Mar. 3. Check issued: No. 36, Adams & Gordon, ... Branch, $500.00.

NOTE.—The above is to provide the Branch with additional working capital.

Mar. 4. Certified Invoices:—

Mar. 2, 19 . Commercial Text Book Co., Toronto, 2/10, n/30. 2,000 Office Routine @ $1.00–$2,000.00. 2,000 Spellers, Can. Business, @ 64c.–$1,280.00; Casing, $20.00. Total—$3,300.00.

NOTE.—Freight on this invoice paid Mar. 24.

Notice to Creditors of First Meeting where Assignment Made

THE BANKRUPTCY ACT

In the Estate of Russell & Brown, Limited, 236 Canada St., Winnipeg authorized assignor,

Notice is hereby given that Russell & Brown, Limited,

of Winnipeg did on the 1st

day of March, 19-- make an authorized assignment to the undersigned.

Notice is further given that the first meeting of creditors in the above estate will be

held at the office of the undersigned on the 14th day of March 19--

at eleven o'clock in the forenoon.

To entitle you to vote thereat proof of your claim must be lodged with me before the meeting is held.

Proxies to be used at the meeting must be lodged with me prior thereto.

And further take notice that if you have any claim against the debtor for which you are entitled to rank, proof of such claim must be filed with me within thirty days from the date of this notice for from and after the expiration of the time fixed by sub section 8 of section 37 of the said Act I shall distribute the proceeds of the debtor's estate among the parties entitled thereto having regard only to the claims of which I have then notice

Dated at Winnipeg this 5th day of March 19--

James Cameron C.A.

Authorized Trustee.

Illustration No. 194 Notice of Assignment under Bankruptcy Act

Mar. 4, 19 . Stafford Ink Co., your address, 2/10, n/30. 100 gro. Ink, Commercial, 2 oz., @ $12.00–$1,200.00.

Mar. 4, 19 . W. J. Gray, your address, n/30. 1 M Advertising Booklets, $50.00; 2 M Letterheads, $16.00. Total—$66.00.

Mar. 4. The Company's note in favor of the Bank falls due to-day. Discounted new note for $8,000.00, time 20 days from date. Bank charges 7% disc. Proceeds $7,964.71.

Mar. 6. Shipped the following goods to the Branch :—

50	gross Ink, Commercial,	cost	$12.00 gross.
100	,, Pencils, # 21 HB	,,	8.00 ,,

Mar. 10. At the request of the Branch issue Check No. 37 to Stafford Ink Co. for $350.00 in settlement of purchases made from them by the Branch. Sent the Branch bookkeeper receipted account from Staffords with instructions to credit Head Office Account with the amount paid.

Mar. 10. Discounted drafts at 7% discount on following :—

Customers.	*Date.*	*Time.*	*Amt. of Draft.*	*Credited by Bank.*
G. R. Arnold	Mar. 8	30 days	$4,312.00	
Robt. Duncan & Co.	,, 8	30 ,,	3,528.00	$7,793.39

Mar. 11. Received the notice shown in Illustration No. 194 accompanied by a form of declaration and proxy.

§ 357. Bankruptcy Procedure. When a person or company is insolvent, the Bankruptcy Act makes provision for the realization of the assets of the insolvent and the equitable distribution of the proceeds thereof among the creditors of such insolvent. This realization and distribution is carried out by an "Authorized Trustee in Bankruptcy." A number of Authorized Trustees have been appointed by the Secretary of State, most of whom are chartered accountants or other persons having skill in the administration of bankrupt estates. An insolvent may either make a voluntary assignment of his property to an Authorized Trustee or, if he refuses to make such voluntary assignment, the Court has power to make an "order-in-bankruptcy," having the same effect as an assignment. This order-in-bankruptcy is made on the petition of a creditor or creditors having valid claims, which they have been unable to collect, amounting to $500 or more. The first duty of an Authorized Trustee upon being appointed to administer a bankrupt estate is to publish a notice calling a meeting of creditors. Copies of this notice must also be sent by mail to all known creditors. This notice (see Illustration No. 194) is usually the first intimation you will receive of the bankruptcy of a customer. The notice will be accompanied by a blank declaration and proxy which the creditor fills out and returns. Illustration No. 195 shows a declaration duly filled out. Creditors who do not desire to send a representative to the meeting usually appoint the Trustee as their proxy. At the meeting of creditors, a Statement of Affairs prepared by the insolvent is presented. The first sheet of a typical Statement of Affairs is shown in Illustration No. 196. It is followed by other sheets giving detailed schedules (A, B, C, etc.) of the various items on the first sheet. While in practice the Trustee usually finds it necessary to assist the bankrupt in preparing this Statement of Affairs, it is, nevertheless, primarily a statement prepared by the bankrupt, who will naturally make it as favorable as possible. The assets for this reason frequently realize less than the values shown on the Statement of Affairs. Also, further creditors are often discovered which are not included in the schedules of creditors. In spite of these defects, the creditor can form some opinion as to what he is likely to realize from the estate, thus enabling him to provide for the expected loss. When the assets of the bankrupt are realized by the Trustee, the

The Bankruptcy Act

In the Matter of the Estate of Russell & Brown, Limited,
of Winnipeg
Debtor.

And in the matter of the claim of
Adams & Gordon, Limited. Creditor.

I, A. Student
of the City of (Your Address) in the Province of
(Your Province) **Do Solemnly Declare** and say,—

1 **That** I am the only duly authorized agent of the above mentioned creditor and have knowledge of all circumstances connected with the debt hereinafter referred to.

2. **That** the said debtor was at the date of the authorized assignment namely; the 1st day of March 19-- and still is justly and truly indebted to the said creditor in the sum of $816.83 as shown by the account hereto annexed and marked "A"

3 **That** the said Creditor has not, nor has any person by his order to my knowledge or belief for his use, had or received any manner of satisfaction or security whatsoever ~~save and except the following~~ —

And I make this solemn declaration conscientiously believing it to be true and knowing that it is of the same force and effect as if made under oath and by virtue of the Canada Evidence Act.

Declared before me at the City
of (Your Address)
in the Province of (Your Province)
this 12th day of March
A.D. 19--
James Jackson
A Commissioner for taking affidavits.

A Student

PROXY

In the Estate of Russell & Brown, Limited,

We, (1), Adams & Gordon, Limited
of the City of (Your Address), a creditor,
hereby appoint James Cameron, C. A.
of the City of Winnipeg to be our (my)
general proxy in the above matter, (excepting only as to receipt of dividends).

Dated at (Your Address) this 12th
day of March A. D. 19--
Witness William Fraser

ADAMS & GORDON, LIMITED.
A Student
Secretary-Treasurer.

Illustration No. 195 Declaration of Claim and Proxy under Bankruptcy Act

Dated A. D 19

In the Matter of the Estate of

Proof of Debt

Published by John A. Newsome, 172 West Richmond St., Toronto

Claimant

Amount $

proceeds in so far as they are not payable to secured creditors are used to pay the following in the order stated :—

1. The expenses and fees of the Trustee.
2. The preferential creditors' claims.
3. The ordinary creditors' claims.

Estates seldom realize sufficient to pay all ordinary creditors in full, so that a " dividend " or dividends of a stated number of cents on the dollar are usually paid.

Mar. 13. Mailed the declaration and proxy shown in Illustration No. 195 to the Trustee.

Mar. 13. Drafts accepted : Commercial Text Book Co., Mar. 2, 10 days' favor, Bank of Montreal, $3,234.00 ; Stafford Ink Co., Mar. 4, 10 days' favor, Dominion Bank, $1,176.00.

STATEMENT OF AFFAIRS.

The Bankruptcy Act.

Re Estate of Russell & Brown, Limited, Authorised Assignor.

To the Debtor:-

You are required to fill up, carefully and accurately, this sheet and such of the several sheets attached hereto as are applicable shewing the state of your affairs on the first of March, 19--, such sheets when filled up will constitute your Statement of Affairs and must be verified by oath or declaration.

LIABILITIES
(as stated and estimated by debtor).

1 Unsecured liab. per List "A"		$9,260.00
2 Secured creditors List "B"	2,500.00	
Less estimated value of securities	2,000.00	
Expected to rank for		500.00
3 Liabilities on bills or notes endorsed or given for accommodation as per List "C"		
Of which it is expected will rank against the Estate for dividend		
4 Preferred creditors per list "D"		567.09
5 Contingent or other liab. as per List "E" estimated to rank for		150.00
Total Liabilities		10,477.09
Surplus		000.00
		10,477.09

ASSETS
(as stated and estimated by debtor).

(a) Stock-in-Trade at cost price not exceeding fair market value		$5,251.00
(b) Trade Fixtures, fittings, utensils		1,240.00
(c) Book Debts, promissory notes, etc. as per List "F":-		
Good		2,506.00
Doubtful	124.00	
Bad	526.00	
Estimated to produce		100.00
(d) Cash in Bank of Hamilton		10.50
(e) Cash on Hand		
(f) Farming Stock		
(g) Machinery, equipment and plant		
(h) Real Estate as per List "G"		
(i) Surplus from securities in hands of creditors fully secured		
(j) Other properties, viz.:-		
If Debtor is a Corporation, add:-		
Amount of capital subscribed	10,000.00	
Amount paid thereon	9,800.00	
Bal. subscribed and Unpaid	200.00	
Estimated to produce		100.00
Total Assets		9,207.50
Deficiency		1,269.59
		10,477.09

James Cameron CA
Authorized Trustee.

I, ...James Brown,.......of the City of...Winnipeg.... in the Province of Manitoba, Secretary-Treasurer of Russell & Brown, Limited, make oath and say that the above statement and the several lists hereunto annexed and marked A, B, C, etc., are to the best of my knowledge and belief a full, true and complete statement of the affairs of the Company on the...first...day of...March..A.D.,19--, and fully disclose all property of every description in possession and in reversion as defined by Section 25 of the Act.

Sworn before me
at the....City.....of...Winnipeg.......
in the Province of....Manitoba........
this...13th...day of..March..A.D., 19--

A B Notary

James Brown

Illustration No. 196 Statement of Affairs under the Bankruptcy Act

Mar. 14. Received the following Account Sale from Taylor & Co., referring to Consignment #1.

Mar. 5, 19 .

		£	s.	d.
250 Office Routine	@ 6s.	75	–	–
500 Filing Systems	@ 11s.	275	–	–
500 C. B. Speller	@ 3s. 9d.	93	15	–
		443	15	–
Less Commission 5%		22	3	9
		£421	11	3

NOTE.—Enter at $4.90 to the £.

Also received the following Account Current from Taylor & Co. :—

ADAMS & GORDON LTD. IN ACCOUNT WITH TAYLOR & CO. LTD.
Consignment #1 Interest to March 5, 19

Date			Amount	Days	Int.	Date			Amount	Days	Int.
Feb.	14	To Del. & Dock Charges	£20 0 0	19	1 5	Feb.	28	By Sales	£800 0 0	5	15 4
Feb.	28	To Commission	40 0 0	5	9	Mar.	5	By Sales	443 15 0		
Mar.	4	To Draft paid	615 12 6	1	2 4	Mar.	5	By Int.	10 10		
Mar.	5	To Commission	22 3 9								
Mar.	5	Int. to contra			10 10						
		Balance Down	546 9 7								
			1244 5 10		15 4				1244 5 10		15 4
Mar.	5	Amt. paid for Bank Draft for $2,688.68	546 9 7			Mar.	5	Balance due you	546 9 7		

Make entry charging Taylor & Co. with the Interest shown above at $4.90 to the £. Enter the Bank Draft which was enclosed as stated in the Cash Book. No exchange when deposited. Complete the posting to Taylor & Co.'s account. The Sterling column should balance, but the dollars column will not. The difference between the two dollars columns is the amount which you will have to adjust by Journal entry to correct the differences due to Foreign Exchange. Make the entry and close Taylor & Co.'s account. Close Consignment #1 Account.

Mar. 15. Checks issued :—

No. 38. Payroll, Geo. Adams, $100.00 ; Travellers, $550 ; Office, $250 ; Warehouse, $175. Total—$1,075.00

No. 39. Travelling Expenses, $206.40.

Mar. 15. Checks received on account of subscriptions to Cap tal Stock : Student, $50.00; Wm. Fraser, $50.00.

Mar. 16. Check from warehouse for Cash Sale, $160.00.

Mar. 18. Certified Invoices :—

Mar. 15, 19 . Canadian Importing Co., your address, 2/10, n/30. 300 gro. Pencils, #21 B, @ $8.00–$2,400.00 ; 100 gro. Erasers, Type, @ $9.00–$900.00. Total—$3,300.00.

Mar. 21. Received check from Branch, $250.00.

NOTE.—By special arrangement with the bank no exchange is to be charged on remittances between Branch and Head Office.

Mar. 22. Draft accepted: Canadian Importing Co., Mar. 15, 10 days' favor, Bank of Montreal, $3,234.00.

Mar. 23. *Pro forma* invoice for Consignment No. 2 to Taylor & Co., Ltd.; 500 N. M. Arithmetic @ 11s., £287 10s.

Mar. 24. Checks issued:—

No. 40. Peoples Stationery Co., Ltd., $4.50.
No. 41. Automobile & Supply Co., $30.00.
No. 42. W. J. Gray, $15.50.
No. 43. C.P.R., Land and Ocean Frt. on Cons. #2, $50.00.
No. 44. Irish & Johnson, Marine Insurance on Con. #2, $22.50.
No. 45. To C.P.R., Freight on goods received from Commercial Text Book Co., Mar. 4, $16.00.

Mar. 25. Received from A. C. Graham & Co. postage stamps to the value of 78c. in settlement of their account. Used the stamps in the office. Make Journal entry.

Mar. 27. Received the Statement of Affairs shown in Illustration No. 196 from the Trustee.

Mar. 27. The company's note in favor of the bank, which falls due to-day, was not renewed.

Mar. 28. Received check from Branch for $200.00.

Mar. 31. Discounted a draft at 7% discount on W. A. Murray, Ltd., at 30 days from March 22. Face of draft $11,309.20. Amount credited by bank, $11,257.14.

Mar. 31. Checks issued:—

No. 46. National Trust Co., Half-year's interest on mortgage due April 1, 19 , $180.00.
No. 47. Payroll: Geo. Adams, $100; Travellers, $550; Office, $250; Warehouse, $175; Total, $1,075.00.
No. 48. Travelling Expenses, $198.70.
No. 49. Petty Cash, $22.25. Distribution as per Petty Cash sheet:—

General Expense	$6.50
Office Supplies	4.25
Warehouse Supplies	2.50
Delivery Expense	9.00
	$22.25

Mar. 31. Received checks on account of subscriptions to Capital Stock: Student, $50. Wm. Fraser, $50.

March. 31. Certified Invoice: Mar. 31, Automobile & Supply Co. Your address, n/30. Gas, Oil, and Repairs, $25.00.

Mar. 31. Received from the bank the Statement shown in Illustration No. 197, together with the returned checks and other bank vouchers. Among the vouchers you find the following debit slip: "Interest on Overdraft, $2.30."

Mar. 31. After having completed your entries to date, proceed as follows:—

1. Have your Cash Book entries checked. Then close and complete posting for month.
2. Prepare Bank Reconciliation.
3. Close your Purchase Journal and complete the posting for the month.
4. Close your Bills Payable Book and complete the posting for the month.
5. Recapitulate your Sales Record and complete the posting for the month.
6. Have all your work to date checked.
7. Do not close your Journal as there are some further entries.

Mar. 31. Make entries for the March proportion of Insurance, Mortgage, Interest, and Organization Expenses.

Mar. 31. Make entry for March reserves for Depreciation.

Mar. 31. After making a careful survey, not only of the open accounts receivable, but of the bills receivable under discount, you decide that all the bills under discount are good. The open account against Russell & Brown is at least partly bad, however, an assignment having been made. From a scrutiny of the Statement of Affairs (see Illustration No. 196) you come to the conclusion that the estate should pay a dividend to ordinary creditors of 60c. on the dollar. The balance of the account will probably be lost. Make entry for the necessary reserve.

EXPLANATION OF CHARACTERS

STATEMENT OF ACCOUNT PERIOD ENDING March 31, 19--

Adams & Gordon, Limited,
Your Place,
Canada

IN ACCOUNT WITH

THE COLLEGE BANK OF CANADA

25 VOUCHERS RETURNED KINDLY NOTIFY THE BANK OF ANY CHANGE OF ADDRESS

OLD BALANCE	DATE	CHECKS IN DETAIL	DATE	DEPOSITS	DATE	NEW BALANCE
		BALANCE BROUGHT FORWARD BY			MAR 1	10,747.69
10,747.69	MAR 1	34.00 – 89.00 – 4.54 –	MAR 1	100.00	MAR 1	
			MAR 1	2,694.57	MAR 1	13,474.72 *
13,474.72	MAR 3	7,806.80 – 19.00 –			MAR 3	5,649.72 *
5,649.72	MAR 4	5,787.70 10,000.00 – 500.00 –	MAR 4	7,964.71 D	MAR 4	673.27 OD
673.27 –	MAR 5	16.66 –			MAR 5	689.93 OD
689.93 –			MAR 10	7,793.39 D	MAR 10	7,103.46 *
7,103.46			MAR 14	2,688.68	MAR 14	9,792.14 *
9,792.14	MAR 15	1,075.00 – 3,234.00 –	MAR 15	567.82	MAR 15	6,050.96 *
6,050.96	MAR 17	1,176.00 – 206.40 –	MAR 17	160.00	MAR 17	4,828.56 *
4,828.56	MAR 20	350.00 –	MAR 20	100.00	MAR 20	4,578.56 *
4,578.56	MAR 22	567.82 EC –	MAR 22	250.00	MAR 22	4,260.74 *
4,260.74	MAR 26	15.50 – 50.00 – 16.00 –			MAR 26	4,179.24 *
4,179.24	MAR 27	8,000.00 – 30.00 –	MAR 27		MAR 27	3,850.76 OD
3,850.76 –	MAR 28	3,234.00 – 4.50 –			MAR 28	7,089.26 OD
7,089.26 –	MAR 30	22.50 –	MAR 30	200.00	MAR 30	6,911.76 OD
6,911.76 –	MAR 31	1,075.00 – 2.30 – 198.70 –	MAR 31	11,257.14 D	MAR 31	3,069.38 *

Illustration No. 197 Bank Statement for March

Mar. 31. Supplies on Hand: Advertising Materials, $35.00; Coal, $12; Office Supplies, $22; Warehouse Supplies, $40.00.

Mar. 31. The Branch bookkeeper has forwarded to you the following General Ledger Trial Balance of the Branch books as at Mar. 31, 19 .

Accounts Payable		$2,670.00
,, Receivable	$7,520.00	
Bank	495.00	
Bills Payable—Trade		560.00
,, ,, Bank		2,000.00
Furniture and Fixtures	2,650.00	
Expense	625.00	
Goodwill	803.00	
Head Office		9,106.00
Insurance Prepaid	40.00	
Merchandise Inventory—Text Books	1,564.00	
,, ,, Stationery	1,769.00	
,, Purchases—Text Books	3,086.00	
,, ,, Stationery	2,780.00	
,, Sales Text Books		3,174.00
,, ,, Stationery		3,762.00
Petty Cash Fund	50.00	
Purchase Discounts		110.00
	$21,382.00	$21,382.00

Memoranda :—

On Mar. 31 the Branch sent Head Office a check for $500.00.
Make the proper entry for this in the Head Office books.
Inventories as at Mar. 31: Text Books, $2,111; Stationery, $1,892; Bad Debts not provided for, $115.00.
Depreciation on Furniture and Fixtures not provided for, 1/12 of 10%.
Supplies on Hand: Advertising Supplies, $25.00.

Mar. 31. After having completed the above remaining entries for the month, proceed as follows :—

1. Have your Journal entries checked.
2. Close and post your Journal in the same manner as last month.
3. Foot and balance your Ledger accounts.
4. Take off a General Ledger Trial Balance.
5. Prove your Sales Ledger.
6. Prove your Purchase Ledger.
7. Prove your Share Ledger.
8. Complete your Expense Ledger for month and prove in the same manner as last month.
9. Prove the Bills Payable Account (if any balance).

Mar. 31. The company's year now ends on December 31, but for various reasons this date is not a desirable one on which to have the financial year end. The Board of Directors have therefore decided to change the end of the financial year to March 31 and to close the books now so that the first year under the new plan may commence on April 1. It will therefore be necessary for you to close the books at this date in the same manner as they would be closed at the end of a full year.

Proceed with the Financial Statements and the closing of the books as follows :—

Prepare a Profit and Loss Account, incorporating both Head Office and Branch results. This will be in the same general form as the Profit and Loss Account which you prepared for February. It will require two extra columns, however, for the Branch results, so that the headings of the account will be as follows :—

ADAMS & GORDON, LIMITED.
Profit and Loss Account for the periods stated below, and ending
March 31, 19

	Total	Head Office - Period 3 Months		Branch - Period 1 Month	
		Text Books	Stationery	Text Books	Stationery

Sufficient data for the Branch columns is given in the Branch General Ledger Trial Balance and accompanying memoranda which you have already received. As to the Head Office, the following additional information is given :—

1. The Merchandise on hand as shown by the Perpetual Inventory is as follows: Text Books, $6,312.31; Stationery, $19,870.46. This being the end of a period a Physical Inventory has also been taken. This results as follows: Text Books, $6,312.31; Stationery, $19,858.46. Upon comparing the two Inventories it is found that the difference is due to the fact that there are four #412 Journals apparently missing, as the Physical Inventory shows four less of this article on hand than is shown by the Perpetual Inventory. The loss cannot be accounted for.
2. The cases on hand were verified by a Physical Inventory and found to agree with the balance of the account.

After you have completed the Profit and Loss Account, it is presented to the Board of Directors, who make the following appropriations :—

1. A Dividend of 3% on the Paid-up Capital Stock is declared, payable April 15.
2. $1,000.00 is transferred to Reserve Fund.
3. The balance is carried forward to the credit of Profit and Loss Appropriation Account.

§ 358. **Dividends.** The Directors have sole power to determine when and what amount of the profits are available for distribution as dividends. To authorize a distribution of profits, the directors are said to "*declare a dividend.*" Dividends can legally be paid out of profits only, but it is not necessary nor is it usually considered prudent to distribute all the profits in dividends. The statutes sometimes make exceptions to the rule that dividends can be paid out of profits only, as in the case of Ontario mining companies which can return the capital in the form of dividends. Upon a dividend being declared each shareholder would be entitled to the proportion of the total amount distributed that the number of shares he holds bears to the total number of shares of capital stock outstanding. Dividends are usually based on a stated percentage of the par value of the shares. Dividends are usually declared at the end of each financial year, but may be declared at any time during the year. In the latter case they are known as "*Interim Dividends.*" Where a company has been earning and paying a regular annual dividend, it sometimes makes a special declaration in addition to the regular amount. This is known as a "*Bonus.*"

The formal declaration of a dividend creates a liability to the shareholders for the amount and (as already pointed out in §327) should be entered :—

Profit and Loss Appropriation Account	*Dr.*	$......	
To Dividend Account			$......
For dividend No. .. at the rate of ..% on the Paid-up Capital Stock.			

In the case of public companies, dividends are usually declared payable some weeks after the declaration so as to give the Secretary time to have the dividend notices printed and to make other preparations for the payment of the dividend. Often the Transfer Register is closed for a period of about ten days prior to the date the dividend is payable and during that time no transfers can be registered. This prevents changes in the dividend checks which might otherwise occur at the last minute. Should a Balance Sheet be prepared after the declaration but before the payment of a dividend, the Dividend Account will show a credit balance which will appear on the Balance Sheet as a Liability.

Dividends are ordinarily paid in cash, although they may be paid in other forms. Where paid in cash, the entry for the payment of the dividend (as already explained in §327) would be debited from the Cash Book to the Dividend Account, thus balancing this account. If there are only a few shareholders, the dividend checks are usually drawn on the general bank account and posted in detail to the debit of the Dividend Account. In a company having a large number of shareholders a single check for the total of the dividend is usually drawn on the general bank account and posted to the debit of the Dividend Account. This check is then deposited in a special Dividend Bank Account and the dividend checks which are sent to shareholders are drawn on this special account. This method necessitates a Dividend Book (which forms no part of the Double Entry system) to record the disbursement of the dividend. A form of Dividend Book is shown in Illustration No. 198.

Instead of being paid in cash, dividends are sometimes paid in the form of fully paid-up Capital Stock. Such dividends are known as "*Stock Dividends,*" and the issue of the shares is entered as follows :—

Dividend Account	*Dr.*	$......	
To Capital Stock			$......
For the following share certificates issued in payment of dividend No. .. :—			
Allan, Frank — 3 shares			
Etc.			
Etc.			

A stock dividend, of course, should be posted to the Share Ledger.

Sometimes dividends are paid in other forms. For instance, during the late war, some companies paid dividends in Victory Bonds. Another method is to apply the dividend to the payment of calls. In the former instance, Victory Bonds Account would be credited, and in the latter the Subscribers' Account for the call paid by the declaration of the dividend.

THE INDEPENDENT GAS COMPANY, LIMITED.

Dividend No. 51 — 3 Per cent, declared June 30, 19--, paid August 1, 19--.

Shareholder	Address to which checks were sent	No. of Shares Held	Amount of Dividend	Dividend Check No.
Allen Frank	Aurora, Ontario	50	150.00	1
Andrews, L. M.	Medicine Hat, Alta.	25	75.00	2
Attridge, V. R.	70 Sparks Street, Ottawa	10	30.00	3
Wright, P. W.	67 Yonge St., Toronto	25	75.00	427
Yule, Arthur	152 Portage Ave., Winnipeg	20	60.00	428
	Totals	10,000	30,000.00	

Illustration No. 198 — Dividend Book

Prepare a Balance Sheet, incorporating both Head Office and Branch items. Do not forget to show Contingent Liabilities as a footnote. Disregard prepaid interest.

NOTE.—In addition to the supplies of advertising material, coal, office supplies, and warehouse supplies, there is another deferred charge in the form of prepaid interest on Trade Bills Receivable discounted. This prepayment arises from the fact that the bank charges interest (discount) in advance for the use of moneys advanced by the bank on trade bills, some of which do not fall due until after March 31. Obviously, on March 31 the company would have prepaid the interest for the periods after March 31 for which the several bills run. As a matter of strict theory this prepaid interest might properly be treated as a Deferred Charge. As a matter of practice, however, such prepaid interest is usually disregarded (unless of important amount), chiefly owing to the amount of labor involved in computing the amount of interest prepaid on each bill where there are a number of bills discounted, as is usually the case. As the amount of the prepayment in the case of Adams & Gordon, Ltd., is of unimportant amount, you will disregard it.

Close your books by Journal entries, which may be made below the ruling in your Columnar Journal. Balance and bring down balances of all real accounts.

Prepare Journal entries necessary to adjust and close the Branch books, such as you would send to the Branch bookkeeper to instruct him how to close his books.

EXAMINATION, SECTION 27.

1. Who administers the estate of an insolvent person ?
2. If an insolvent person refuses to put his affairs in the hands of an authorized trustee, may he be forced to do so ? How, by whom, and on whose petition ?
3. How are creditors informed of a bankruptcy ?

4. Comment on the accuracy of a statement of affairs in bankruptcy.
5. Who have power to declare dividends? Are they limited in any degree? If so, state how.
6. How would you enter a stock dividend? Give Journal entries only.

The following review questions are taken from the Primary and Intermediate Examinations of the Institute of Chartered Accountants of Ontario respectively:—

What is the difference between Single and Double Entry Bookkeeping? Which would you recommend to a client, and for what reasons?

What is the distinction between Capital and Revenue Expenditures. Give examples where expenditure on Wages, Repairs, Legal Fees would be chargeable to Capital and Revenue.

Section 28

MISCELLANEOUS MATTERS AFFECTING COMPANIES

§ 359. Capital Stock Account. The Capital Stock Account may be kept in such a way as to show the Paid-up Capital Stock, the Subscribed Capital Stock, or the Authorized Capital Stock. The authors are of the opinion that the method by which the Subscribed Stock is shown is the best under all ordinary circumstances. The other methods should be explained, however.

Where the Paid-up Stock is to be shown, the Subscriber's Account is eliminated and Capital Stock is credited only when the payment for the Stock is received, as follows :—

Cash (or other Assets)	\$......	
To Capital Stock		\$......

This method can be used to advantage where all stock is paid for within a short time after the organization of the company, as it considerably reduces the number of entries. Even under such circumstances, however, it is perhaps better to use the method you have already learned, which results in a much more complete record which may be valuable at some future time. The result, obviously, is the same. The method is not suitable in the case of shares which are not paid for in full within a short time after their allotment, as it fails to record the debt from subscribers, which is an important asset of the company.

Where the Authorized Stock is to be shown the first entry made in the books of the company is :—

Unsubscribed Capital Stock	\$......	
To Capital Stock		\$......

for the amount of the Authorized Capital Stock. All future entries will be the same as under the method you have already learned, except that entries formerly made in Capital Stock Account, under this plan would be made in Unsubscribed Capital Stock Account. For instance, the entry for an allotment would be :—

Subscribers	\$......	
To Unsubscribed Capital Stock		\$......

Obviously the Unsubscribed Capital Stock Account would show, as its title indicates, the Unsubscribed Stock, and the Capital Stock Account the Authorized Stock. This method is used very little in Canada, although it is used very frequently in the United States. Its only effect is to record the Unsubscribed Stock (which has no value until it is sold) on the books as if it were an asset. The method is not objectionable, providing the Unsubscribed Stock is *not* treated as an asset, but is deducted from the Authorized Capital Stock, when a Balance Sheet is prepared. On the contrary, the method has no particular merit and strikes one as a useless piece of bookkeeping.

§ 360. Preference Shares. While in most companies there is but one class of Capital Stock, known as "Common Stock" or "Ordinary Stock," in many companies there are two classes, the additional class being known as "Preference" Stock. The holders of Preference Shares have certain preferences and limitations as compared with the holders of Common Shares. The privileges which accrue to Preference shareholders and the limitations to which they are subject as compared with the holders of common shares may be of any nature, as they are dependent entirely on the provisions of the letters patent or by-laws by which such Preference Shares are created. The following, however, are typical provisions :—

(1) *Dividends.* Preference shareholders are often given the right to a fixed preferential dividend, which is payable to them in priority to any dividend payment to the holders of Common shares. In most cases the Preference shareholders are *limited* to this fixed dividend and the entire remaining profits after paying the dividends to Preference shareholders are

available for Common dividends. It is not an uncommon feature, however, to find Preference shareholders entitled to a further dividend, equal to that paid Common shareholders, after the Common shareholders have received a dividend equal to the fixed preferential dividend paid on the Preference Shares.

Preference Shares which are preferred as to dividend may be divided into two classes—"*Non-cumulative*" preference shares and "*Cumulative*" preference shares. *Non-Cumulative Preference Shares* are those which entitle the holders to their fixed dividend for each year only in the event of the profits for that year being sufficient to enable such dividend to be declared. If the profits for that year are insufficient, the preference shareholders receive only such dividend as can be paid, and lose their rights entirely so far as the unpaid balance of that year's dividend is concerned. *Cumulative Preference Shares* provide that, if the profits in any year are insufficient to pay the Preference dividend, the preference for the unpaid dividend shall extend to future years and not only all current Preference dividends but all arrears of same shall be paid before any dividend can be paid to ordinary shareholders.

(2) *Liquidation.* Preference shareholders are often given the right to have the par value of their shares returned to them in full in priority to the holders of Common shares in the event of the company being wound up either by voluntary or compulsory liquidation.

(3) *Voting.* Preference shareholders are often limited in their voting powers. For instance, they may be given the right to elect only a certain number of directors. Another common provision is that they shall have no votes at all unless or until the Preference dividends are in arrears for a stated period, usually one year.

(4) *Redemption.* The company is often given the right to redeem Preference Shares usually at a premium over and above their par value.

(5) *Conversion.* Preference shareholders are sometimes given the right to convert their Preference Shares into Common Shares, Debentures, or other securities of the company.

By some of the Companies Acts and, in any case, as a matter of good business practice, the holders of Preference Shares should receive separate share certificates and these certificates should have printed thereon the nature of the preferences or limitations. Some companies have two or more classes of Preference Shares which are usually known as "First Preferred," "Second Preferred," and so on.

There are only two points for the student to note in connection with the relationship of Preference Shares to the accounts. The first is that instead of one Capital Stock Account two should be kept :—

1. Capital Stock—Preferred;
2. Capital Stock—Common;

so that the total amount of each class of Capital Stock may show on the books.

The second point is that, while arrears of dividend on Cumulative Preference Shares are a prior charge for future dividends over the Common shareholders, such arrears are in no sense a liability and consequently no entry should be made for them until such time as the dividends are declared. On the contrary, the fact that Preference dividends are in arrears is a fact which should be mentioned on the balance sheet, usually by a note immediately following the item for Preference Shares. For instance :—

Capital Stock:		
7% Cumulative Preferred (Dividends in arrears since July 1, 19)	$100,000.00	
Common	100,000.00	
		$200,000.00

It is common practice in promoting public companies for the promoters to receive Common Stock in consideration of any assets they sell to the company, while Preference Shares, having a preference both as to dividends and as to capital in the event of liquidation,

are sold to the public to provide Working Capital. Usually the promoters give some of their Common Shares as a bonus to the purchasers of Preference Shares to stimulate the sale of such Preference shares. A promotion planned in this way indicates that the promoters have sufficient confidence in the enterprise to take shares which can pay dividends only *after* a fair return is paid to the holders of Preference Shares, who furnish the actual cash to finance the company. Possible investors may well be suspicious of a company to which the promoters sell speculative assets and receive in return shares of equal rank to those which are sold to the general public.

§ **361. Discount or Premium on Shares.** While companies as a rule cannot legally sell their shares at less than par, there are certain exceptions to this general rule (*e.g.* Ontario mining companies). It is consequently necessary to consider the treatment of discount on shares.

EXAMPLE.

The Lowgrade Mining Co., Ltd., allots 5,000 shares having a par value of $1 each to John Jones at 50c. a share. Show the entry.

ANSWER.

Subscribers *Dr.*	$2,500.00	
Discount on Shares *Dr.*	2,500.00	
To Capital Stock		$5,000.00

From the above example it will be seen that the Discount on Shares Account will show a debit balance equal to the difference between the par value of the shares outstanding and the amount actually received by the company for such shares. Discount on Shares Account should *not* be shown in the Balance Sheet as an Asset, *but should be deducted from the Capital Stock.*

The entry for the sale of shares at a premium would be as follows :—

EXAMPLE.

A company allots 50 shares par value $100 each at $150 a share. Show the entry.

ANSWER.

Subscribers *Dr.*	$7,500.00	
To Capital Stock		$5,000.00
To Premium on Share		2,500.00

Premium on Shares Account is best shown as a separate item on the Balance Sheet, added to Capital Stock.

§ **362. Discount or Premium on Bonds.** Bonds or debentures are seldom sold for exactly their face value. For instance, a company makes an issue of $100,000 of 6% bonds having 10 years to run and having a face value of $1,000 each at a time when the market rate of interest is *higher than* 6%. The company in this case will naturally find it necessary to sell the bonds for less than $1,000. Supposing they are sold for $950 each, the entry for the sale would be as follows :—

Cash *Dr.*	$95,000.00	
Discount on Bonds *Dr.*	5,000.00	
To Bonds		$100,000.00

The discount of $5,000 represents the difference between 6% interest and the market rate of interest for the 10 years that the bonds have to run, and consequently should be treated in the accounts as a Deferred Charge to be written off to Profit and Loss Account over the 10 years at the rate of $500 a year. Thus each year's Profit and Loss Account will be charged not only with the $6,000 which is the amount of the nominal interest, but

with a proportion of the discount amounting to $500, thus making a total charge of $6,500, which represents the actual interest paid on the bonds. The balance of Discount on Bonds Account would, of course, appear in the Balance Sheet from time to time as a Deferred Charge.

Taking the above example, but supposing the market rate of interest was ***lower than*** 6% and that the bonds realized $1,050 each, the entry for the sale would be as follows :—

Cash *Dr.*	$105,000.00	
To Bonds		$100,000.00
To Premium on Bonds		5,000.00

The Premium on Bonds Account would be treated in just the opposite manner to that in which a discount is treated. It would be shown in the Balance Sheet as a Deferred Credit, and written off to Profit and Loss Account at the rate of $500 a year, thus reducing the annual interest charge from $6,000 to $5,500.

The method of writing off the discount or premium on bonds in equal annual instalments over the term of the bond issue is satisfactory and customary where the amount involved is not great. It should be noted, however, that in very large bond issues or even in smaller bond issues, where the discount or premium is unusually large, a more mathematically correct method of apportioning the discount or premium over the several years that the bonds have to run is used.

§ 363. Treasury Stock. While a Canadian company cannot legally purchase its stock, it occasionally acquires such stock by gift. Stock is sometimes donated by shareholders to a company that is in difficulties, with the object of enabling the company to re-sell such stock for the purpose of raising working capital. Stock which is acquired by a company in this manner is known as "*Treasury Stock.*" The term "Treasury Stock" should never be used as synonymous with "Unissued Stock," although this is a mistake which is often made. Treasury Stock can be legally sold at less than par. As the entries resulting from the donation of stock to a company and its subsequent re-sale are of a very technical nature, and as the transaction itself is so unusual these entries will not be discussed in this text.

§ 364. Statutory Records, Etc., Relating to the Accounts. While it would be out of place in a text of this nature to go too extensively into the details of company law, there are a few points in the various Companies Acts which have a decided bearing on the accounts. The following have been selected as typical clauses, although they will naturally vary somewhat in the different Provinces.

Dominion Companies Act.

89. The company shall cause a book or books to be kept by the secretary, or by some officer especially charged with that duty, wherein shall be kept recorded :—

(*a*) A copy of the letters patent incorporating the company, and of any supplementary letters patent, and of the preliminary memorandum of agreement and of all by-laws of the company ;

(*b*) the names, alphabetically arranged, of all persons who are or have been shareholders ;

(*c*) the address and calling of every such person while such shareholder, as far as can be ascertained ;

(*d*) the number of shares of stock held by each shareholder ;

(*e*) the amounts paid in and remaining unpaid, respectively, on the stock of each shareholder ; and,

(*f*) the names, addresses and calling of all persons who are or have been directors of the company, with the several dates at which each became or ceased to be such director. (2 Edw. VII, c. 15, s. 74.)

90. A book called the Register of Transfers shall be provided, and in such book shall be entered the particulars of every transfer of shares in the capital of the company.
(2 Edw. VII, c. 15, s. 74.)

91. Such books shall, during reasonable business hours of every day, except Sundays and holidays, be kept open, at the head office or chief place of business of the company, for the inspection of shareholders and creditors of the company, and their personal representatives, and of any judgment creditor of a shareholder.

2. Every such shareholder, creditor or personal representative or judgment creditor may make extracts therefrom.
(2 Edw. VII, c. 15, s. 75.)

107. All books required by this part to be kept by the company shall in any action, suit, or proceeding against the company or against any shareholder be *prima facie* evidence of all facts purporting to be thereby stated.
(2 Edw. VII, c. 15, s. 78.)

116. Every company who neglects to keep any book or books required by this part to be kept by the company, shall be guilty of an offence and liable, on summary conviction before two justices of the peace, to a penalty not exceeding twenty dollars for each day that such neglect continues.
(2 Edw. VII, c. 15, s. 77.)

117. Every director, officer or servant of the company, who knowingly makes or assists in making any untrue entry in any book required by this part to be kept by the company, or who refuses or wilfully neglects to make any proper entry therein, or to exhibit as required by this part any entry made therein, or to allow the same, as required by this part, to be inspected and extracts to be taken therefrom, is guilty of an indictable offence.
(2 Edw. VII, c. 15, s. 76.)

Section 89, subsections (*b*), (*c*), (*d*), and (*e*) are sufficiently carried out if a Share Ledger as described in §287 is kept, providing the sheets are arranged in alphabetical order. Section 90 refers to the Transfer Register with which you are already familiar. The other matters have no direct bearing on the accounts and in any case are self-explanatory.

Ontario Companies Act.

122. The directors shall cause proper books of account to be kept containing full and true statements of :—

(*a*) The financial transactions of the corporations ;

(*b*) the assets of the corporation ;

(*c*) the sums of money received and expended by the corporation, and the matters in respect of which such receipt or expenditure took place ;

(*d*) the credits and liabilities of the corporation ; and

(*e*) a book or books containing minutes of all the proceedings and votes of the corporation, or of the board of directors, respectively, verified by the signature of the president, or other presiding officer of the corporation.
(7 Edw. VII, c. 34, s. 120.)

The ordinary account books with which you are familiar satisfy subsections (*a*) to (*d*). The extracts from the minutes which have been given from time to time in your exercises will familiarize you with the sort of records which are kept in the minute book.

Dominion Companies Act.

94. A. (1) Every company shall at each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.

While it is only ordinary business prudence to appoint an auditor for any concern, it is made a statutory requirement in most Companies Acts. His powers and duties are also clearly set out.

Dominion Companies Act.

105. (1) An annual meeting of the company shall be held at such time and place in each year as the special Act, letters patent, or by-laws of the company provide, and in default of such provisions in that behalf an annual meeting shall be held at the place named in the special Act or letters patent as the place of the head office of the company, on the fourth Wednesday in January every year.

(2) At such meeting the directors shall lay before the company :—

(*a*) a balance sheet made up to a date not more than four months before such annual meeting : Provided, however, that a company which carries on its undertaking out of Canada may, by resolution at a general meeting, extend this period to not more than six months ;

(*b*) a general statement of income and expenditure for the financial period ending upon the date of such balance sheet ;

(*c*) the report of the auditor or auditors ;

(*d*) such further information respecting the company's financial position as the special Act, letters patent, or by-laws of the company require.

(3) Every balance sheet shall be drawn up so as to distinguish severally at least the following classes of assets and liabilities, namely :—

(*a*) cash ;

(*b*) debts owing to the company from its customers ;

(*c*) debts owing to the company from its directors, officers and shareholders respectively ;

(*d*) stock in trade ;

(*e*) expenditures made on account of future business ;

(*f*) lands, buildings, and plant ;

(*g*) goodwill, franchises, patents and copyrights, trade marks, leases, contracts and licen es ;

(*h*) debts owing by the company secured by mortgage or other lien upon the property of the company ;

(*i*) debts owing by the company but not secured ;

(*j*) amount of common shares subscribed for and allotted and the amount paid thereon, showing the amount thereof allotted for services rendered, for commissions or for assets acquired since the last annual meeting ;

(*k*) amount of preferred shares subscribed for and allotted and the amount paid thereon, showing the amount thereof allotted for services rendered, for commissions or for assets acquired since the last annual meeting ;

(*l*) indirect and contingent liabilities (*Ontario Companies Act, Sec.* 43) ;

(*m*) amount written off on account of depreciation of plant, machinery, goodwill, and similar items. (*New.* 7–8 Geo. V, c. 25, s. 12.)

Subsection (3) has been adopted by the Dominion from the Ontario Companies Act, where it was included on the recommendation of the Institute of Chartered Accountants of Ontario. It gives legal support to ordinary good practice.

§ **365. Prospectus.** New public companies who desire to sell their shares or other securities to the general public issue an invitation to the public to subscribe for such securities. This invitation is known as a " Prospectus," and the various Companies Acts require that it contain full particulars as to the affairs of the company.

EXAMINATION, SECTION 28.

1. Describe three alternative methods of keeping the Capital Stock Account. Which do you consider preferable in most ordinary cases ? Name the Ledger Accounts which would be opened and what the balances of such accounts represent, under each of the three methods, using the following illustrative figures :—

Authorized Capital Stock	$100,000.00
Subscribed ,, ,,	90,000.00
Paid-up ,, ,,	85,000.00

2. A company is incorporated and issues $100,000.00 of 7% Cumulative Preference Stock and $100,000.00 Common Stock. Three years pass by during which the company has net profits of $10,500.00, $3,600.00, and $4,000.00, and pays dividends on the Preference Stock of 7%, 3%, and 3½%, together with a common dividend of 3% the first year. What would be the position of the holders of Preference Stock regarding future dividends as compared with the holders of Common Stock ? How would you give information as to such position in the Balance Sheet ?
3. One year ago a company sold $100,000.00 Ten-year First Mortgage Debenture Bonds at $95.00, also $100,000.00 Capital Stock at the same price. Draft a skeleton Balance Sheet upon the expiration of the year, showing in the proper places the Bonds, Stock, and discount on each.
4. What is Treasury Stock ? Distinguish it from Unissued Stock.
5. What items must be shown separately on the Balance Sheet of a company incorporated under the Dominion Companies Act ?

The following review questions are taken from the Primary and Intermediate Examinations of the Institute of Chartered Accountants of Ontario respectively :—

6. Jones & Co., Ltd., with its Head Office at Toronto, and a Branch at Winnipeg, closes its books at December 31, 19 . The following are the Trial Balances at that date :—

HEAD OFFICE, TORONTO.

Accounts Payable		$4,100.00
Accounts Receivable	$22,000.00	
Cash on Hand and in Bank	4,200.00	
Dividends paid in 19	3,500.00	
Expenses	9,500.00	
Capital Stock		35,000.00
Furniture	1,000.00	
Goodwill	6,200.00	
Inventory M rchandise, Dec. 31, 19	12,500.00	
Purchases, Freight and Duty	45,000.00	
Profit and Loss Account		4,600.00
Sales		72,000.00
Winnipeg Branch (Owing by)	11,800.00	
	$115,700.00	$115,700.00

WINNIPEG OFFICE.

Accounts Payable		$3,000.00
Accounts Receivable	$6,000.00	
Bank		500.00
Cash on Hand	100.00	
Expenses	5,000.00	
Furniture	500.00	
Head Office (amount owing)		11,100.00
Inventory Merchandise, Dec. 31, 19	8,000.00	
Purchases, Freight and Duty	20,000.00	
Sales		25,000.00
	$39,600.00	$39,600.00

Inventory, M rchandise on hand, December 31, 19 :—

Toronto	$13,000.00
Winnipeg	6,000.00

Toronto has shipped Winnipeg $700.00 in merchandise, which is in transit at the date of the Balance Sheet. Provision is to be made for $200.00, estimated amount of Bad Debts at Winnipeg. Other than this no provisions are to be made for Bad Debts and Depreciation.

Make Journal entries closing books of each office. Draw up combined Balance Sheet and Profit and Loss Statements for presentation to the shareholders. Also give a Trial Balance of the books at each office after all closing entries have been made.

In the above Balance Sheet do not show the amount due by the Winnipeg Branch.

7. A, B, and C are in partnership as merchants, and after their first year's business their bookkeeper prepared the following statement which they hand you with instructions to prove to them what their profits were. Prepare a statement showing this. The agreed division of profits were: A 50%, B 30%, and C 20%.

A, B, and C.
BALANCE SHEET, March 31, 19 .

Amount due to Trade Creditors		$11,950.00
Due for Accrued Wages		550.00
A Capital A/c, 1/4/12	$40,000.00	
Drawings	6,000.00	
		34,000.00
B Capital A/c, 1/4/12	10,000.00	
Drawings	4,800.00	
		5,200.00
Balance		20,550.00
		$72,250.00
Trade Debtors Open A/cs		$20,950.00
Stock on Hand		16,500.00
Cash at Bank		950.00
Insurance, etc., prepaid		850.00
Cash Drawings		3,600.00
Partners' Salaries A/c		14,400.00
Trade Debtors:—		
Bills Receivable	$30,000.00	
Less discounted	15,000.00	
		15,000.00
		$72,250.00

Section 29

MANUFACTURING ACCOUNTS

In our work to date we have dealt entirely with the accounts of trading businesses. It now becomes necessary to examine the new points which arise in the accounts of manufacturing establishments.

§ **366. Trading Account.** The following is a typical Trading Account of a trading business :—

TRADING ACCOUNT

For the Year Ending December 31, 19 .

Sales for Year (Net)		$102,106.00
Less Cost of Goods Sold :—		
Inventory, Jan. 1, 19	$21,620.00	
Purchases for year (including freight and duty)	89 764.00	
	111,384.00	
Less Inventory, Dec. 31, 19	26,432.00	
		84,952.00
Gross Profit for Year		$17,154.00

If, however, you were preparing a Trading Account for a business which manufactured its own goods instead of buying them ready for sale, you would change the account as follows :—

TRADING ACCOUNT

For the Year Ending December 31, 19 .

Sales for Year (Net)		$102,106.00
Less Cost of Goods Sold :—		
Inventory of Finished Goods, Jan. 1, 19	21,620.00	
Cost of Goods manufactured during Year	89,764.00	
	111,384.00	
Less Inventory of Finished Goods, Dec. 31, 19	26,432.00	
		84,952.00
Gross Profit for Year		$17,154.00

It will be noted from the above that there are two alterations in the Trad ng Account :—

1. Inventories are specified to be " Inventories of Finished Goods." This is only a change in wording, however, as the inventories of the trading concern are also finished goods. It is not necessary to specify this in the trading concern, however, as *all* goods are " finished," while a manufacturing concern divides its inventory into at least three sections :—

   (1) Finished goods ;
   (2) Work in process (or partly finished goods) ;
   (3) Raw materials ;

   only the first of which enters into the Trading Account.
2. The item " Purchases " is replaced by " Cost of Goods Manufactured."

§ 367. Manufacturing Account. It will be obvious that, in the case of a manufacturing concern, the management will require some information as to the details of the item "Cost of Goods Manufactured." For this reason it has become customary to submit, in the case of manufacturing businesses, an additional statement which is known as the "Manufactur ng Account." This Manufacturing Account shows in detail the costs of production which enter into the cost of the goods manufactured during the period. The following will illustrate the form of Manufacturing Account which would accompany the preceding Trading Account :—

MANUFACTURING ACCOUNT

For the Year Ending December 31, 19 .

Inventory of Work in Progress, Jan. 1, 19		$2,530.00
Raw Materials put in Process :—		
Inventory of Raw Materials, Jan. 1, 19	$26,427.00	
Purchases of Raw Materials for Year (including freight and duty)	32,324.00	
	58,751.00	
Less Inventory of Raw Materials, Dec. 31, 19	30,290.00	
		28,461.00
Productive Labor		23,145.00
Manufacturing Overhead :—		
Non-productive Labor	9,500.00	
Factory Management Salaries	12,000.00	
Power	4,676.00	
Factory Supplies	1,798.00	
Depreciation of Machinery and Plant	1,800.00	
Repairs to Machinery and Plant	264.00	
Depreciation of Factory Buildings	1,659.00	
Repairs to Factory Buildings	187.00	
Insurance Premiums on Factory Buildings and Equipment	1,260.00	
Sundry Factory Expenses	5,134.00	
		38,278.00
		92,414.00
Less Inventory of Work in Progress, Dec. 31, 19		2,650.00
Cost of Goods Manufactured during Year		$89,764.00

§ 368. Additional Ledger Accounts. As the above Manufacturing Account will indicate, it will be necessary to open a number of new Ledger Accounts in order that adequate results may be obtained to prepare Fınancial Statements for a manufacturing business.

Two Wages accounts will have to be opened, one of which will be entitled "Productive Wages" and the other "Non-Productive Wages." The former will be charged with the expenditure on wages for employees directly engaged in the manufacture of the product. This account will obviously represent one of the main elements in the Cost of Production. Non-Productive Wages Account will be charged with the wages of those employees who are *not* directly engaged in production, such as store-keepers, night-watchmen, etc. Non-Productive Wages form part of the Manufacturing Overhead and are so shown in the Manufacturing Account.

It is also necessary to open various accounts for the other items of Manufacturing Overhead. These, of course, will be suitably subdivided according to the needs of each

individual factory, but a suggestion as to the accounts necessary is given in the above Manufacturing Account. In this connection it should be pointed out that, if exact costs are to be shown by the Manufacturing Account, it is important to make a sharp separation between Factory Expenses or " Manufacturing Overhead " and Selling and General Expenses, the latter of which are properly charged to the Profit and Loss Account. For instance, it will be noticed that insurance premiums on factory buildings and equipment are included in the Manufacturing Overhead, while, as the student already knows, insurance premiums on such items as Office Furniture and Fixtures are properly chargeable to the Profit and Loss Account as General Expenses. In many cases, however, the office equipment is covered by the same insurance policy which covers factory equipment, and it is not possible to separate the premium chargeable to each. Where this is found to be the case, it is considered good practice to charge the whole amount to Manufacturing Overhead for the reason that the office equipment usually represents but a small portion of the total value of equipment insured. This rule would also apply to other items of a similar nature. For instance, it would not usually be possible to separate the cost of heating the office and sales rooms from the cost of heating the factory, and fuel would therefore usually be charged entirely to Manufacturing Overhead.

In closing the accounts of a manufacturing enterprise at the end of the financial year, a Manufacturing Account would be opened in the Ledger, to which would be closed all items entering into the cost of the goods manufactured. The balance of this Manufacturing Account would then be closed to the Trading Account and the remaining closing entries made in the usual manner. Many accountants prefer to submit their Financial Statements in " account " form. Where this style of Financial Statement is used, the Manufacturing Account which is submitted with the Financial Statements is simply a copy of the Manufacturing Account in the Ledger.

In a manufacturing business it will also be necessary to open one or more new Fixed Asset accounts to show the cost of equipment used in the manufacturing operations. Typical examples are " Plant and Machinery," " Small Tools," and " Patterns."

§ **369. Manufacturing and Trading Combined.** Some concerns are both traders and manufacturers. They manufacture a portion of the goods which they sell and the remainder is purchased by them in a completed state. In such cases it is necessary to keep two Purchases Accounts :—

1. Purchases—Raw Materials ;
2. Purchases—Merchandise ;

the former being charged to Manufacturing Account and the latter to the Trading Account, which would then appear as follows :—

TRADING ACCOUNT

For the Year Ending December 31, 19 .

Sales for Year (Net)		$102,106.00
Less Cost of Goods Sold :—		
Inventory of Finished Goods, Jan 1, 19	$21,620.00	
Cost of Goods Manufactured during Year	78,456.00	
Purchases of Merchandise during Year	11,308.00	
	111,384.00	
Less Inventory of Finished Goods, Dec. 31, 19	26,432.00	
		84,952.00
Gross Profit for Year		$17,154.00

§ 370. **Insufficient Information.** In practice many instances are encountered where insufficient information is available to enable the Manufacturing and Trading Accounts to be prepared in the form shown.

For instance, Wages are not always divided into Productive and Non-Productive. In such case the only alternative is to show the total Wages in one item in the Manufacturing Account.

Again, Purchases are occasionally not divided into Materials and Merchandise, even though both are purchased; or no information may be available as to the inventories of Materials, Work in Process and Finished Goods, the total inventory only being known. In such cases it is obviously not possible to prepare a Manufacturing Account, and one is forced to prepare a Trading Account incorporating all items, but not showing clearly the cost of goods manufactured, as follows:—

TRADING ACCOUNT

For the Year Ending December 31, 19 .

Sales for Year (Net)			$102,106.00
Less Cost of Goods Sold:—			
Inventories, Jan. 1, 19		$50,577.00	
Purchases (including freight and duty)		32,324.00	
Wages		32,645.00	
Factory Expenses:—			
Factory Management Salaries	$12,000.00		
Power	4,676.00		
Factory Supplies	1,798.00		
Depreciation of Machinery and Plant	1,800.00		
Repairs to Machinery and Plant	264.00		
Depreciation of Factory Buildings	1,659.00		
Repairs to Factory Buildings	187.00		
Insurance Premiums on Factory Buildings and Equipment	1,260.00		
Sundry Factory Expenses	5,134.00		
		28,778.00	
		144,324.00	
Less Inventories, Dec. 31, 19		59,372.00	
			84,952.00
Gross Profit for Year			$17,154.00

While a Trading Account prepared along the above lines is admittedly incomplete, it should, of course, be made as informative as the available facts will permit.

EXAMINATION, SECTION 29.

All the following problems are taken or adapted from the Primary and Intermediate Examinations of the Institute of Chartered Accountants of Ontario:—

1. Prepare Manufacturing, Trading, Profit and Loss Account and Balance Sheet for John Jones, Ltd. The period is for the year ending December 31, 19 , and the Trial Balance of the General Ledger is as follows:—

Debit Balances:

Cash	$250.00
Accounts Receivable	17,000.00
Bills Receivable	3,800.00
Inventory Account	95,000.00
Plant	40,000.00
Buildings	32,000.00
Goodwill	50,000.00
Purchases—Raw Material	180,000.00
Purchases—Finished Goods	20,000.00
Wages—Productive	15,000.00
Wages—Non-productive	7,000.00
Factory Expenses	9,000.00
Salary—Factory Superintendent	5,000.00
Office and Management Expenses	4,000.00
Salaries—Management	7,000.00
Salesmen's Commissions	14,000.00
Interest	1,500.00
Preference Dividends Paid	4,000.00
Discounts Allowed	3,200.00
	$507,750.00

Credit Balances:

Accounts Payable	$6,000.00
Bank Overdraft	24,000.00
Profit and Loss Account	5,050.00
Reserve—Depreciation Plant	6,200.00
Reserve—Bad Debts	2,300.00
Capital Stock—Preferred	40 000.00
Capital Stock—Common	50,000.00
Sales	350,000.00
Discount Received	4,000.00
Sale of Machinery	1,200.00
Debenture Stock, 6%	19,000.00
	$507,750.00

The following information is given:—

Bills under Discount at Bank	$6,500.00
Balance owing on Preferred Stock	10,000.00

A charge against the profits of 1% of sales is to be made for Bad Debts. Included in the Accounts Receivable are ascertained Bad Debts of $1,800.00. The 6% Debenture Stock was sold on January 1, 19 , and the par value is $20,000.00 (having been sold at a discount of $1,000.00), and matures in ten years from date of issue.

Provide 10% depreciation on Plant Account. The machinery sold for $1,200.00 cost $2,500.00. The inventories are as follows:—

	Dec., 19 .	Dec., 19 .
Raw Materials	70,000.00	36,000.00
Work in Process	5,000.00	2,500.00
Finished Goods	20,000.00	1,500.00
	$95,000.00	$40,000.00

2. The following is a Trial Balance taken from the books of The Blank Manufacturing Co., Ltd., on January 31, 19 :—

Purchases including Freight and Duty	$214,500.26	
Wages—Productive	56,080.43	
Factory Expenses	28,541.06	
Salaries	18,250.75	
Office and Selling Expenses	15,271.40	
Discount Allowed	4,742.81	
Interest Paid	1,115.20	
Cash	100.00	
Accounts Receivable	49,866.72	
Bills Receivable	15,200.51	
Inventory, Merchandise, Jan. 31, 19	146,281.84	
Machinery and Plant	34,665.40	
Reat Estate and Buildings	53,000.00	
Sales		$407,761.85
Discount Received		1,432.72
Accounts Payable		15,505.98
Bills Payable—Bank		10,000.00
Bills Payable—Trade		3,250.00
Profit and Loss Account—Balance, Jan. 31, 19		51,137.36
Capital Stock		150,000.00
Bank Balance	1,471.53	
	$639,087.91	$639,087.91

Inventory, January 31, 19 , is $103,140.74. Provision is to be made for outstanding Productive Wages, $415.00, and Salaries $125.00, and a Reserve to be set aside for Depreciation on Machinery at 10%.

Prepare :—

(*a*) Trading Account ;

(*b*) Profit and Loss Account ;

(*c*) Balance Sheet.

3. The figures in the following Financial Statement are correct. Redraft the Statements, making any changes in form or arrangement which you consider advisable. Give reasons for changes.

BALANCE SHEET, December 31, 19 .

Assets.		*Liabilities.*		
Accounts Receivable	$5,250.00	Capital Stock (authorized)		$50,000.00
Plant and Machinery	25,000.00	Bonds	$20,000.00	
Goodwill	2,500.00	Less Discount	1,000.00	
Inventory	16,000.00			19,000.00
Capital Stock (unissued)	10,000.00			
Cash on Hand	5,000.00			$69,000.00
Due by Shareholders on Capital Stock	2,000.00	Profit and Loss Account		3,250.00
	$65,750.00			$65,750.00

MANUFACTURING ACCOUNT.

Inventory, Jan. 1, 19 :		Sales	$37,000.00
Raw Materials	$5,000.00	Inventory, Dec. 31, 19 :	
Finished Goods	8,000.00	Raw Materials	6,000.00
Purchases	12,000.00	Finished Goods	10,000.00
Wages	9,000.00		
Bad Debts	2,000.00		
Gross Profit	17,000.00		
	$53,000.00		$53,000.00

TRADING ACCOUNT.

Selling Expenses	$3,500.00	Gross Profit	$17,000.00
Plant Repairs	3,000.00		
Interest on Bonds	1,200.00		
Salaries	5,000.00		
Net Profit	4,300.00		
	$17,000.00		$17,000.00

PROFIT AND LOSS ACCOUNT.

Jan. 1, 19 , Balance	$7,550.00	December 31, 19 , Net Profit	$4,300.00
		December 31, 19 , Balance	3,250.00
	$7,550.00		$7,550.00

4. Brown and Jones are partners. A Trial Balance of their books at December 31, being the result of a year's business, is as follows :—

Debit Balances :	
Bank	$8,000.00
Plant	4,800.00
Brown, Drawings	2,500.00
Jones, Drawings	2,000.00
Expenses	6,000.00
Wages	2,200.00
	$25,500.00
Credit Balances :	
Commissions Received	$16,000.00
Accounts Payable	500.00
Brown—Capital Account	5,000.00
Jones—Capital Account	4,000.00
	$25,500.00

The following information is given : Brown owns the building, which the partnership rents from him at $200.00 per month. He is to be credited with this at the end of the year. The entry has not yet been put through. Interest at 5% per annum is to be allowed on the partners' capital accounts. Drawings are not subject to interest. The profits are to be divided in the ratio of : Brown 3/5, Jones 2/5. There are commissions earned but not received of $1,200.00. Depreciation of 10% is to be provided on the plant. After the above Trial Balance was drawn up an error was found of $500.00, being a payment on the mortgage of the building, which is chargeable to Brown, but improperly included among the partnership expenses. Prepare Profit and Loss Account and Balance Sheet.

Section 30

COST ACCOUNTING

Cost Accounting is such an important and extensive branch of accounting that it is almost impossible to present a complete treatment of it unless a separate volume is devoted to the subject. The most the authors can hope to do, therefore, in a general work of the nature of this text, is to present a brief outline of the subject. The student, from this outline, should obtain a working knowledge of the principles of cost accounting which will be valuable to him and which will serve as an introduction to a more extensive study of the subject, should the student desire to specialize in this phase of accounting.

§ 371. **Nature of Cost Accounts.** While cost accounting is not limited to manufacturing businesses, it is in connection with manufacturing that cost accounts are most commonly met with and are of the greatest value. In the broad sense, the term "cost accounts" includes any account whose object is to ascertain costs. In the limited and more common sense, the term refers to accounts kept with the object of ascertaining the cost of producing manufactured goods.

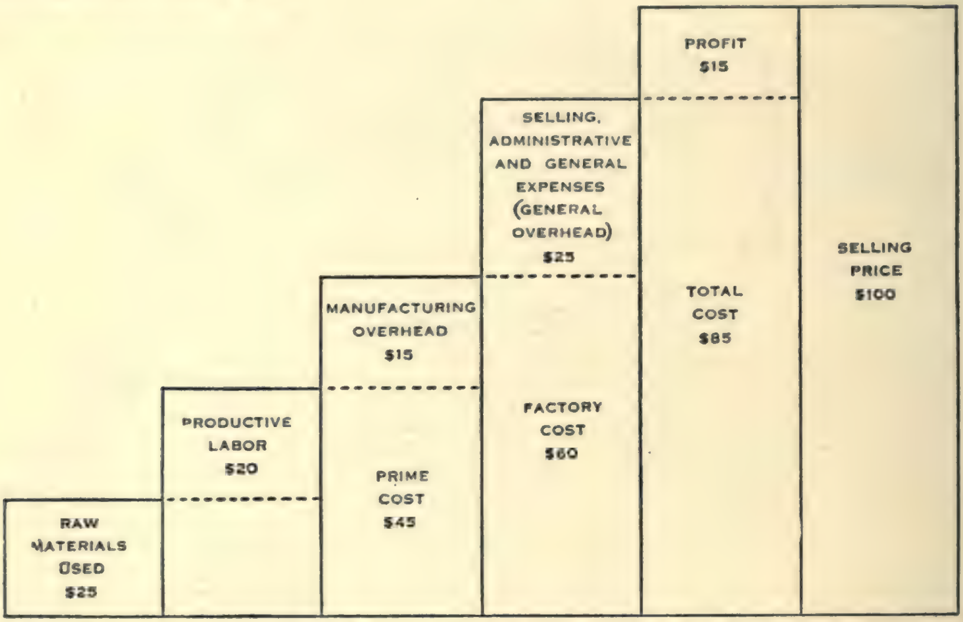


Illustration No. 199 Diagram showing elements making up Selling Price of a Manufactured Article

§ 372. **Necessity of Manufacturing Cost Accounts.** In a trading concern the process of costing is very simple. It is only necessary to add to the purchase price of the article the freight, duty, and other costs of laying down the article in the warehouse ready for sale. Upon this cost the trader can base his selling prices after allowing for expenses and profit.

In a manufacturing business the problem is not so simple. In Section 29 you were instructed how to obtain the *factory cost* of goods manufactured. You found that it consisted of Materials, Labor and Manufacturing Overhead. If a factory produces one article of a standard design, this *factory cost* can be divided by the number of articles produced, and we can thus determine the *factory cost per article*, upon which selling prices can be determined after allowing for expenses and profit.

In few factories, however, is the problem of arriving at the cost of a manufactured article so simple. Most factories produce a variety of articles costing various amounts and, even

though the total cost and the quantities of each article produced may be known, without special cost accounts it is impossible to ascertain the cost of each article. A manufacturing establishment which does not ascertain these costs, however, is at a great disadvantage as compared with its competitors who have proper cost systems.

§ 373. **Elements of Cost.** Before commencing the study of costing methods, it is essential that you clearly understand the elements of cost with which you have to deal. The diagram shown in Illustration No. 199 shows the component elements in the selling price of a manufactured article selling at $100. Study it carefully.

§ 374. **Variation in Methods.** There is more variation in cost accounting methods than in those used in any other branch of accounting. This is partly due to the great diversity in the manufacturing operations of various concerns, and as the cost accounts must be designed to record these operations they naturally result in a wide variety of cost records. The differences in the cost methods to a considerable extent are also due to the fact that the practice of cost accounting is as yet in its infancy.

In view of the above, it is obviously quite impossible to illustrate in this text every conceivable variation in cost accounting methods. The most that the authors can hope to accomplish is to present an outline of the cost methods in one type of manufacturing.

Manufacturing operations fall into two general classes :—

1. Where a large variety of articles are manufactured, usually to the order of each customer, as a rule no stock of finished goods being kept. An example of this class

CABINET SHOPS, LIMITED

FACTORY ORDER

TO FACTORY SUPERINTENDENT:
MANUFACTURE THE UNDERMENTIONED ARTICLES ACCORDING TO DRAWINGS AND SPECIFICATIONS ATTACHED.

TO BE COMPLETED July 1, 19–

QUANTITY	ARTICLES AND DESCRIPTION
5	Dining Chairs
1	Arm Chair

NO.	DATE	
2195	JUN 1 192-	M. Anager MANAGER

Illustration No. 200 Factory Order

CUSTOMER	James Adams	ARTICLES	FACTORY ORDER NO.
TO BE COMPLETED	July 1, 19-	5 Dining Chairs 1 Arm-Chair.	2195

MATERIALS		PRODUCTIVE LABOR															
		MACHINING				CABINET WORK				UPHOLSTERING				POLISHING			
REQUISITION NO.	AMOUNT	DATE	EMPLOYEE NO.	TIME	AMOUNT	DATE	EMPLOYEE NO	TIME	AMOUNT	DATE	EMPLOYEE NO.	TIME	AMOUNT	DATE	EMPLOYEE NO.	TIME	AMOUNT
3196	20.50	June 3	12	2	1.20	June 6	21	8	4.80	June 27	25	6	3.60	June 14	15	3	1.80
3211	.75	4	12	8½	5.10	7	21	8½	5.10					15	15	3	1.80
3300	14.35	5	12	5½	3.30	8	21	4	2.40					17	15	3	1.80
						10	21	8½	5.10					19	15	3	1.80
						11	21	8½	5.10					22	15	3	1.80
						12	21	7	4.20					28	27	8½	5.10
						13	21	5½	3.30					29	27	1½	.90
	35.60			16	9.60			50	30.—			6	3.60			25	15.—

TOTAL COST SUMMARY

MATERIALS			35.60
LABOR MACHINING 16 HOURS	9.60		
" CABINET WORK 50 "	30.—		
" UPHOLSTERING 6 "	3.60		
" POLISHING 25 "	15.—		58.20
PRIME COST 97			93.80
MANUFACTURING OVERHEAD 20¢ PER HOUR			19.40
FACTORY COST			113.20
GENERAL OVERHEAD 10% OF FACTORY COST			11.32
TOTAL COST			124.52

PROFIT OR LOSS

SELLING PRICE	150.—
TOTAL COST	124.52
PROFIT	25.48
LOSS	

Illustration No. 201

Cost Ledger

of manufacturing is a cabinet shop which makes individual articles of furniture to the order of customers. Cost accounts for this type of manufacturing are known as " Order Costs " or " Job Costs."

2. Where only one or a few articles are manufactured, usually for stock, the manufacturing operation being a more or less continuous process. An example of this class of manufacturing is a furniture factory, which manufactures sectional bookcases, and nothing else. Cost accounts for this type of manufacturing are known as " Process Costs."

In many concerns both the above types of manufacturing are found in different departments.

In our illustrations of cost accounting methods, we will use a cabinet shop for the reason that Order Costs are somewhat more simple for the beginner to follow.

§ 375. **Factory Orders.** The first step in cost accounting is to establish some control of the manufacturing operations. In Order Costs, this is accomplished by instructing the factory superintendent that no goods are to be manufactured except upon receipt by him of a written order signed by the manager. A form of " Factory Order " is shown in Illustration No. 200. These orders are serially numbered, the illustration being Order No. 2195. A copy of each Factory Order is filed on a binder in the office.

CABINET SHOPS, LIMITED

MATERIAL REQUISITION

TO STOREKEEPER:
DELIVER TO
Machine Shop FOR ORDER NO. 2195

QUANTITY	ARTICLES AND DESCRIPTION	FOR OFFICE USE ONLY — PRICE		AMOUNT		CR TO STORES RECORD ACCOUNT No
12'	4" Walnut		.50	6	00	135
4'	2¼" do		.50	2	00	132
25'	1¼" do		.50	12	50	131
				20	50	

NO	DATE			
3196	JUN 2	POSTED TO COST LEDGER	✓	F. Oreman
		ENTERED ON SUMMARY OF MATERIALS ISSUED	✓	FOREMAN

Illustration No. 202 Material Requisition

§ 376. Cost Ledger. As each Factory Order is made out, a "Cost Ledger" Account is opened. Specimen Cost Ledger Account is shown in Illustration No. 201. Study the specimen account carefully. You will note that materials used in the work are charged in detail. Productive Labor is also charged in detail and is also subdivided into the various operations :—

Machining ;	Upholstering ;
Cabinet Work ;	Polishing.

Materials and Productive Labor are summarized in the space provided and Manufacturing and General Overhead are added, thus giving the total cost, which is then compared with the selling price and the profit or loss shown.

It will readily be seen from a study of the illustration that the Cost Ledger gives quite adequate information as to the cost of each job. We will next consider how to obtain this information as to costs, to record in the Cost Ledger.

§ 377. Materials. In a well-organized plant one will almost invariably find a storekeeper in charge of the storeroom, in which raw materials are stored under lock and key until such time as they may be required for manufacture. In order that an accurate record of the cost of materials used on each order may be obtained, the storekeeper is not permitted to issue any materials without receiving a "Material Requisition" duly signed by the foreman of the department requiring the materials and stating the order for which such materials are required. A form of Material Requisition is shown in Illustration No. 202. These Requisitions are the bases from which postings for materials costs are made to the Cost Ledger. Trace the posting of the Requisition illustrated.

Occasionally a foreman may requisition more materials from stores for an order than is really required, although this should seldom occur. When it does, the surplus is returned to stores and a "Materials Returned to Stores" slip (not illustrated) is made out. This gives a basis for crediting the Cost Ledger Account with the materials returned.

§ 378. Productive Labor. A "Workman's Daily Report" card is shown in Illustration No. 203. One of these cards is made out by each workman daily, showing the work, both productive and non-productive, upon which he was engaged that day. The productive work states the order number, and postings are made from these cards to the Cost Ledger Accounts. Trace the posting of the two hours spent on Order No. 2195 in the Report illustrated.

§ 379. Manufacturing Overhead. After reading the two previous paragraphs, it will be seen that methods have been provided which will enable the Prime Cost of any order to be obtained with a high degree of accuracy. Manufacturing Overhead must next be considered. Of course, Manufacturing Overhead will vary considerably in different factories, but in a cabinet shop it will be found to be made up of such items as :—

Factory Superintendent's Salary.
Non-productive Labor.
Repairs to Machinery and Plant.
Depreciation of Machinery and Plant.
Power (for sake of simplicity, say Electric Power).
Electric Light.
Fuel (for Heating Factory).
Gas (for Heating Glue Pots).
Polishing Supplies (Varnishes and Finishes—really Raw Materials, but obviously incapable of being measured and charged to each order).
Rent of Factory (or equivalent charges if factory is owned by proprietors).
Insurance on Plant and Machinery.
Sundry Factory Supplies.

It is obviously impossible to determine with any great degree of accuracy what proportion of any of the above items are properly chargeable to the cost of any particular order. Many different methods of apportioning Manufacturing Overhead to the various cost accounts

CABINET SHOPS, LIMITED

WORKMAN'S DAILY REPORT

NAME M. A. Chimist DATE June 3, 19–

NO. 12 DEPARTMENT Machine Shop

FACTORY ORDER NO	NATURE OF WORK	TIME COMMENCED	TIME FINISHED	FOR OFFICE USE ONLY: HOURS WORKED	AMOUNT		POSTED TO COST LEDGER
	PRODUCTIVE						
2103	Machining	8.00	2.30	5½	3	30	✓
2195		2.30	4.30	2	1	20	✓
	NON-PRODUCTIVE						
Oiling	Machines	4.30	5.30	1		60	
				8½	5	10	

RATE PER HOUR	ENTERED ON PAY ROLL SUMMARY	APPROVED
60¢	✓	F. Oreman FOREMAN

Illustration No. 203 Workman's Daily Report

have been designed, some more accurate than others, but all to some extent based on estimate. It requires a considerable amount of study in each particular industry to decide upon a method giving the fairest results for that industry. In our example we have decided upon the method by which a pre-determined rate per hour of productive labor is charged to each cost account as representing the cost of Manufacturing Overhead. This rate would be determined periodically from the following calculation:—

$$\frac{\text{Estimated Manufacturing Overhead for Period}}{\text{Estimated Productive Labor Hours}} = \text{Rate per Hour}$$

The estimates of Manufacturing Overhead and Productive Labor Hours would be based on past experience. It is usually possible to arrive at estimates which are quite close to the actual figures, but in any case the rate per hour will, of course, have to be varied from time to time.

§ **380. General Overhead.** General Overhead is also based on estimate, but is almost invariably apportioned as a percentage on Factory Cost, there being even less data upon which to base a scientific apportionment than in the case of Manufacturing Overhead.

GENERAL LEDGER CONTROL.

We have now outlined the method of obtaining costs of individual orders. In well-designed cost systems the Cost Ledger is a subsidiary ledger which necessitates a controlling account in the General Ledger. The necessity of having a controlling account also requires several other changes in the General Ledger Account, which are outlined hereunder.

§ **381. Raw Materials Account.** One of the new accounts which are opened is a Raw Materials Account. This account is debited with the opening inventory of raw materials. It is also debited from a special column in the Purchase Journal, with the total Purchases of Raw Materials. It is credited with the total materials issued from the storeroom. If the above items have been calculated without error and if there has been no wastage of materials, the balance of the Raw Materials Account should now represent the amount of the closing physical inventory of raw materials. However, there is almost invariably some wastage and error in dealing with materials, so that there is usually a difference which will have to be adjusted. The following is a typical Raw Materials Account (condensed) for a year :—

RAW MATERIALS.

Jan. 1.	Inventory of Raw Materials	$16,572.00	Dec. 31.	Materials issued from Storeroom	$92,461.00
Dec. 31.	Purchase of Raw Materials for Year	95,463.00	„ 31.	Adjustment for Wastage, etc.	324.00
			„ 31.	Balance down	19,250.00
		$112,035.00			$112,035.00
Jan. 1.	Inventory of Raw Materials	19,250.00			

In order to obtain the above credit for Materials Issued, the Materials Requisitions shown in Illustration No. 202 are summarized or recapitulated in the same manner as that in which Sales Invoices are recapitulated. The total of this "Summary of Materials Issued" is credited to Raw Materials as above and is debited to Work in Process (see § 384).

§ **382. Wages.** Each week the Workmen's Daily Report cards are summarized on a "Pay Roll Summary." This summary contains columns at least for "Productive Labor" and "Non-productive Labor." In addition the wages are often classified by departments. The total of this weekly Pay Roll Summary will naturally be the amount due to workmen for their week's work and should be credited to Wages Account, which may be regarded as a group personal account with the workmen. The total of the Productive Labor column will be charged to Work in Process Account (see § 384), and the total of the Non-productive Labor column will be charged to Factory Overhead.

This Pay Roll Summary is not a voucher for the *payment* of Wages, however. The voucher for this is the Pay Roll (see Illustration No. 204), which is partly prepared from day to day so that it can be quickly completed at the end of the week. The total of the Pay Roll should agree with the total of the Pay Roll Summary. A check is drawn and cashed for the total of the Pay Roll. The cash is then put in pay envelopes and distributed to the workmen. The amount of the check is debited from the Cash Book to the Wages Account. The Wages Account will then balance, although at the end of a financial period it sometimes shows a credit balance representing the balance due to workmen for wages not paid until the following period.

CABINET SHOPS, LIMITED

PAY-ROLL

WEEK ENDING *June 9* 19

EMPLOYEE NO.	EMPLOYEE'S NAME	DEPARTMENT	TIME WORKED M	T	W	T	F	S	S	TOTAL	RATE	AMOUNT	
1	F. Oreman	Machine Shop	8½	8½	8½	8½	8½	4½		47	70	32	90
2	A. Brown	Cabinet Shop	8½	8½	8½	8½	8½	4½		47	75	35	25
3	S. U. Pervise	Polishing	8½	8½	8	8½	8½	4		46	70	32	20
4	L. E. Goat	Upholstering	8½	8½	8½	8½	8½	4½		47	75	35	25
5	N. T. Watchman	Night Watch	13	13	13	13	13	13	13	91	40	36	40
6	J. Smith	Handy Man	8½	8½	8½	8½	8	4		46	60	27	60
7	B. Hobbs	Cabinet Shop	8½	8½	8½	8½	8½	4½		47	60	28	20
8	J. S. Jones	" "	8½	8½	8½	8½	8½	4½		47	60	28	20
9	Art Hanson	" "	8½	8½	8½	8½	8½	4½		47	60	28	20
10	H. A. Onslow	" "	8½	8½	8½	8½	8½	4½		47	60	28	20
11	C. D. Gibson	" "	8½	8½	8½	8½	8½	4½		47	60	28	20
12	M. A. Chemist	Machine Shop	8½	8½	8	8	–	–		33	60	19	80
13	R. H. Harris	" "	8½	8½	8½	8½	8½	4½		47	60	28	20
14	A. S. Smith	" "	8½	8½	8½	8½	8½	4½		47	60	28	20
15	P. O. Lisher	Polishing	8½	8½	8½	8½	8½	4½		47	60	28	20
16	L. O. Blackburn	"	8½	8½	8½	8½	8½	4½		47	60	28	20
17	C. D. Langwell	"	8½	8½	8½	8½	8½	4½		47	60	28	20
18	E. F. Beechand	"	8½	8½	8½	8½	8½	4½		47	60	28	20
19	G. H. Clarke	Store Room	8½	8½	8½	8½	8½	4½		47	60	28	20
20	J. S. Ayres	Upholstering	8½	8½	8½	8½	8½	4½		47	60	28	20
21	C. Maker	Cabinet Shop	8½	8½	8½	8	8½	4		46	60	27	60
22	K. L. Harben	" "	8½	8½	8½	8½	8½	4½		47	60	28	20
23	M. N. Bayne	" "	8½	8½	8½	8½	8½	4½		47	60	28	20
24	O. P. Branley	" "	8½	8½	8½	8½	8½	4½		47	25	11	75
25	U. P. Holsterer	Upholstering	8½	8½	8½	8½	8½	4½		47	60	28	20
26	J. S. Harding	"	–	–	–	8½	8½	4		21	60	12	60
27	R. U. B. Eidown	Polishing	–	–	–	–	–	4		4	60	2	40
			217	217	216	224½	216½	123	13	1227		724	95

PAY-ROLL PREPARED BY	PAY-ROLL CHECKED, PAY ENVELOPES MADE UP AND DISTRIBUTED BY	APPROVED
A Timekeeper	*B Cashier*	*M Anager* MANAGER

Illustration No. 204 Pay Roll

§ 383. Manufacturing Overhead Account. This account is debited in the ordinary manner from the Purchase Journal, Cash Book, etc., with all expenditures for Factory Overhead. As each order is completed, a portion of the Manufacturing Overhead is charged to the cost of that order. This portion, as already pointed out, may be calculated by any one of a number of methods, the method used in our illustration being a rate per Productive Labor Hour, this rate being pre-determined and altered from time to time. Whatever method of distributing Overhead is used, a Summary of the Manufacturing Overhead charged to orders finished should be prepared each month. The total of this Summary should be credited to Manufacturing Overhead Account and charged to Work in Process (see § 384).

Obviously, when this credit to Manufacturing Overhead Account is posted there should only be a small balance on one side or the other in the account, if the estimated rate per Productive Labor Hour has been calculated with reasonable accuracy. In fact, if the balance of the Manufacturing Overhead Account becomes large at the end of any month it is the best indication that the rate per Productive Labor Hour requires revision. The balance in the Manufacturing Overhead Account (providing the balance is small, as it should be) is commonly carried forward from period to period as a Deferred Charge. The following is a typical Manufacturing Overhead Account (condensed) :—

MANUFACTURING OVERHEAD.

Jan. 1.	Balance	$51.00	Dec. 31.	Distributed to Cost Accounts as per Summary	$10,625.00
Dec. 31.	Purchases of items chargeable to Manufacturing Overhead	6,254.00	„ 31.	Balance	25.00
„ 31.	Depreciation of Plant, etc.	1,261.00			
„ 31.	Non-productive Labor (see § 382)	2,760.00			
„ 31.	Wastage of Materials, etc. (see § 381)	324.00			
		$10,650.00			$10,650.00
Jan. 1.	Balance	25.00			

§ 384. Work in Process Account. The Work in Process Account is the controlling account of the Cost Ledger, and a trial balance of the open accounts in the Cost Ledger should agree with it at the end of any month. It is *debited* with the cost of Work in Process at the commencement of the period, also with the total cost of Materials Issued from Stores, the total expenditure on Productive Labor, and the total amount of Manufacturing Overhead charged to costs. It is *credited* with the total *Factory Cost* of work completed and charged to Finished Goods Account. Note that this is *Factory Cost* only. General Overhead cannot properly be added except at the point of sale, otherwise Finished Goods remaining on hand and unsold at the end of a financial period would be over-valued. When goods are finished, the Cost Ledger Accounts are simply taken out of the Cost Ledger and transferred to the Finished Goods Ledger, the total Factory Cost shown on such accounts being summarized in a " Production Summary." The total of this Production Summary is credited as described to Work in Process Account and is charged to Finished Goods Account, thus maintaining the Cost Ledger control. The following is a typical Work in Process Account (condensed) :—

WORK IN PROCESS.

Jan. 1.	Inventory of Work in Process	$6,251.00	Dec. 31.	Factory Cost of Goods Completed	$162,734.00
Dec. 31.	Materials Issued from Stores	92,461.00	,, 31.	Balance down	8,100.00
,, 31.	Productive Labor	61,497.00			
,, 31.	Manufacturing Overhead Distributed to Cost Accounts	10,625.00			
		$170,834.00			$170,834.00
Jan. 1.	Inventory of Work in Process	8,100.00			

§ **385. Finished Goods Account.** As pointed out above, cost sheets filled in as far as the factory cost are transferred from the Cost Ledger to the Finished Goods Ledger upon the completion of the articles manufactured. They are kept in this Ledger until such time as the articles are delivered to the customer, when an amount is added for General Overhead. It is not necessary to make a Summary for General Overhead, as it is summarized in the Sales Record. The Sales Record, where a cost system is used, will be ruled something along the lines of the form shown in Illustration No. 205. The following entries are made from the Sales Book totals :—

SALES RECORD July 19–

INVOICE NO.	FACTORY ORDER NO.	AMOUNT OF INVOICE	COST					PROFIT	LOSS
			RAW MATERIALS	PRODUCTIVE LABOR	MANUFACTURING OVERHEAD	GENERAL OVERHEAD	TOTAL		
501	2195	150 —	35 60	58 20	19 40	11 32	124 52	25 48	— —
		66271 50	17427 —	30641 50	5406 35	5941 65	59416 50	7206 50	351 50

llustration No. 205 Sales Record used in conjunction with Cost System

Accounts Receivable	Dr.
To Sales	Cr.
For the total Sales	

Finished Goods	Dr.
To General Overhead	Cr.
For the General Overhead allocated	

Cost of Sales	Dr.
To Finished Goods	Cr.
For the total cost of the goods sold	

A typical Finished Goods Account (condensed) follows :—

FINISHED GOODS.

Jan. 1.	Inventory of Finished Goods	$6,074.00	Dec. 31.	Cost of Sales	$179,000.00
Dec. 31.	Factory cost of Goods Completed	162,734.00	„ 31.	Balance down	6,081.40
„ 31.	General Overhead Apportioned	16,273.40			
		$185,081.40			$185.081.40
Jan. 1.	Inventory of Finished Goods	179,000.00			

The Finished Goods Account is, of course, the controlling account of the Finished Goods Ledger.

§ 386. **General Overhead Account** is debited with expenditures for General Overhead and is credited with the amount of such Overhead apportioned upon the sale of the manufactured articles. The account will ordinarily show a small balance at the end of each period as in the case of Manufacturing Overhead Account. This balance is treated in the same manner as in the latter account.

§ 387. **Cost of Sales Account** is debited with the cost of goods sold as described in § 385. The balance at the end of the year is closed to Profit and Loss Account. The account should preferably be especially ruled with columns for Raw Materials, Productive Labor, Manufacturing Overhead and General Overhead.

STORES ACCOUNTS.

§ 388. **Stores Record.** It is customary to keep a perpetual inventory of materials in the storeroom in conjunction with most cost systems. This perpetual inventory is known as the Stores Record and a specimen sheet is shown in Illustration No. 206.

ARTICLE *Walnut* GRADE OR STYLE *4"* UNIT OF MEASURE *Foot* MAXMUM *2000'* MINIMUM *500'* NO. *135*

DATE		REFERENCE NO.	RECEIVED	ISSUED	ON HAND	DATE		REFERENCE NO.	RECEIVED	ISSUED	ON HAND
May	1	175	2000								
	4	2400		25							
	8	2501		14							
	9	2520		30							
	20	2741		200							
	25	2807		500							
	30	R15	25		1256						
June	2	3196		12							
	10	3274		30							
	25	3461		20	1194						

Illustration No. 206 Stores Record

The first debit posting in the illustration is a purchase of 2,000′ of 4″ Walnut—Purchase Invoice No. 175. The next is 25′ returned to stores as per Materials Returned to Stores

Slip No. R 15. All the credits are for stores issued and are posted from Material Requisitions. Look up Illustration No. 202, and trace the posting of the 4″ Walnut.

If the quantities shown in the Stores Record are priced at cost, the total of the book inventory so obtained should approximately agree at any time with the balance of the Raw Materials Account.

EXAMINATION, SECTION 30.

All the following problems are taken or adapted from the Primary or Intermediate Examinations of the Institute of Chartered Accountants of Ontario.

1. The Trial Balance of a manufacturing company on the 30th April at the end of a month's operations shows as follows :—

Cash on Hand and in Bank		$5,357.50	
Accounts Receivable		136,658.50	
Raw Materials		96,800.00	
Inventory, March 31	$38,500.00		
Purchases	58,300.00		
Work in Process		45,000.00	
Inventory, March 31	33,300.00		
Productive Labor	11,700.00		
Finished Goods		15,800.00	
Inventory, March 31	15,800.00		
Machinery and Plant		84,000.00	
Office Equipment		4,200.00	
Deferred Charges		1,882.50	
Goodwill		50,000.00	
Accounts Payable			$121,345.00
Accrued Wages			800.00
Reserve for Bad Debts			4,877.50
Reserve for Depreciation, Plant and Machinery			22,500.00
Reserve for Depreciation, Office Equipment			800.00
Capital Stock			225,000.00
Profit and Loss Account Balance, March 31			28,837.50
Factory Overhead		9,265.00	
General Overhead		17,696.50	
Expenses, Warehouse and Shipping	$5,800.00		
Selling Expenses	7,500.00		
Office & Administrative Expenses	3,800.00		
Discounts on Sales	596.50		
Sales, Net			62,500.00
		$466,660.00	$466,660.00

It is noted, however, that a number of entries have not yet been made re the following :—

Raw Materials issued from stores during month, $42,785.00 ; Production for month at Factory Cost, $52,300.00 ; Factory Overhead is apportioned on basis of 80% of Productive Labor ; Estimated Factory Cost of Sales for month, $37,150.00 ; General Overhead distributed on basis of 50% of Factory Cost ; Depreciation on Machinery and Plant at rate of 10% per annum ; Depreciation of Office Equipment at rate of 10% per annum ; Accrued

Wages in addition to amount already provided for Productive Labor, \$900.00, and for Non-productive Labor, \$250.00; Bad Debts, 1½% of Sales.

Prepare :—

(a) Revised Trial Balance after the above entries have been made.

(b) Detailed Ledger Accounts for Raw Materials, Work in Process, Finished Goods, Factory Overhead, General Overhead. What does the balance of each of these accounts represent?

2. You are required to compile a Manufacturing Cost Account of a factory from the following figures, showing the average :—

(a) Prime Cost;

(b) On Cost or Indirect Charges; and

(c) Factory Cost of each of the 885 articles out-turned in the year 19 :—

	Jan. 1.	Dec. 31.
(a) *Inventories.*		
Finished Goods	\$5,785.32	\$6,893.31
Work in Progress (40% Prod. Wages and 60% Material)	4,019.30	3,910.55
Raw Material	16,001.99	14,876.41
Fuel	536.40	450.05
Shop Stores	323.19	401.89
Insurance	130.00	250.00
	\$26,796.20	\$26,782.21
Creditors.		
For Materials	\$1,462.30	\$1,306.85
For Wages (7½% Non-productive)	936.40	901.98
For Factory Expenses	201.15	388.05

(b) The Cash Book shows the following payments to have been made during the year :—

Wages—Productive	\$89,876.50	
Non-productive	6,874.40	
Repair Work	989.25	
		\$97,740.15
Factory Expenses		2,490.90
Shop Stores		901.85
Insurance		550.40
Fuel		1,490.30
Purchases		86,030.90

(c) The value of the plant as shown in the head office books, January 1, 19 , was \$50,000.00, on which it is required to charge 5 % Depreciation, and the Head Office wishes also a debit of 5 % interest on the Capital—as at the beginning of the year—charged against the output.

3. What records are Joint Stock Companies obliged to keep?

4. Give Journal entries correcting the following errors :—

(a) In purchase record, in carrying over from one page to another, Stores \$5,334.67 and Fuel \$2,347.89 were carried over as Fuel \$5,334.67 and Stores \$2,347.89.

(b) In Cash Book a check for \$1,035.00 is entered in the Bills Payable column covering a Bill Payable \$1,000.00 and \$35.00 interest. The Bill was past due and a Journal entry for \$1,000.00 had already been made, transferring it from Bills Payable to the credit of the creditor's account.

(c) The recapitulation of returned sales had been over-added by \$100.00.

(d) A purchase of \$238.45 had been posted to the debit of the creditor's account as \$283.45 and the resulting difference in the balance of the books entered in a "Suspense Account."

Section 31

MISCELLANEOUS MATTERS NOT ALREADY DEALT WITH

§ 389. **Arrangement of General Ledger Accounts.** In dealing with the accounts of Adams & Gordon, Ltd., you have arranged your General Ledger Accounts in alphabetical order. Most accountants, however, prefer to arrange these accounts by classes, rather than alphabetically, as this facilitates the preparation of financial statements, particularly where there are a large number of accounts in the General Ledger. To illustrate this method of arrangement the General Ledger Accounts which were in use by Adams & Gordon, Ltd., are arranged below by classes :—

	Account No.
Current Asset Accounts.	
Petty Cash Fund	1
Cash in Transit	2
Bank	3
Accounts Receivable	4
Reserve for Bad Debts	5
Subscribers	6
Taylor & Co.	7
Merchandise Inventory—Text Books	8
Merchandise Inventory—Stationery	9
Consignments to Taylor & Co.	10
Tangible Fixed Asset Accounts.	
Land	21
Buildings	22
Reserve for Depreciation of Buildings	23
Delivery Equipment	24
Reserve for Depreciation of Delivery Equipment	25
Furniture and Fixtures	26
Reserve for Depreciation of Furniture and Fixtures	27
Other Assets and Deferred Charges Accounts.	
Goodwill	31
Prepaid Insurance	32
Organization Expenses	33
Deferred Charges (Sundry)	34
Cases	35
Branch Account	36
Liability Accounts.	
Bills Payable—Bank	41
Bills Payable—Trade	42
Accounts Payable	43
Freight and Express Prepaid	44
Freight, Duty and Brokerage	45
Spaulding & Co.	46
Accrued Interest on Mortgage	47
Mortgage Payable	48
Capital Accounts.	
Capital Stock	51
Reserve Fund	52
Profit and Loss Appropriation	53

Income and Expenditure Accounts.

Merchandise Sales—Text Books	61
Merchand se Sales—Stationery	62
Merchandise Purchases—Text Books	63
Merchandise Purchases—Stationery	64
Merchandise Shipped on Consignment—Text Books	65
Profits on Consignment—Text Books	66
Commissions Earned—Stationery	67
Purchase Discounts	68
Expense	69

Summary Accounts.

Trading	71
Profit and Loss	72

In posting to a Ledger arranged as above, the account numbers should be used as a posting reference instead of the tick which you have been using. Note the gaps in the above account numbers for possible new accounts.

§ **390. Voucher System.** In many concerns it is possible to dispense entirely with the Purchase Ledger, which considerably reduces the work of the bookkeeper. This can only be done to advantage in concerns where—

(*a*) Accounts payable are paid with reasonable promptness. (It can be done to particular advantage in the case of concerns which pay all outstanding accounts payable of the previous month on, say, the 10th or the 15th of the following month.)

(*b*) Partial payments of round amounts are not made, but each payment is for the amount of one or several invoices.

The method which dispenses with the Purchase Ledger is known as the Voucher System, chiefly because it is usually accompanied by a more orderly and formal treatment of the purchase vouchers.

Where the Voucher System is adopted the book which corresponds with the Purchase Journal is known as the Voucher Register. A specimen is shown in Illustration No. 207.

VOUCHER

FOR........................

DATE		VOUCHER NO	CREDITOR	TERMS	PAID BY	
					CHECK OR BILL PAY.	NO

Illustration No. 207 Voucher

Note the columns for recording the details as to payment of the voucher. The total of the "Amount of Voucher" column is credited monthly to Vouchers Payable Account, but the detailed items in this column are not posted as no Creditors' Accounts are kept. Vouchers Payable Account corresponds exactly to the Accounts Payable Account, being a group account with creditors. There is a column in the Cash Book for Vouchers Payable, and payments entered in this column are posted in total monthly to the debit of Vouchers Payable Account. Bills Payable are also posted in total to the debit of this account. As payments are made either by check or bill, the number is entered in the space provided in the Voucher Register. At the end of each month a list is made of all vouchers not marked off as paid, and the total of this list naturally should agree with the balance of the Vouchers Payable Account.

One obvious defect of the above method is that it is difficult to locate past transactions with any particular creditor. This defect is remedied by paying particular attention to the proper filing of the vouchers in numerical order and by keeping a card index of the vouchers, all vouchers from each creditor being indexed on one card which is filed under that creditor's name in alphabetical order.

While the elimination of the Purchase Ledger can be accomplished by the method outlined above, which does not itself necessitate any special forms, it is a fact that practically all concerns who adopt the Voucher System use one or more special forms. These forms are generally designed with the following in view :—

1. To provide a check which on its face identifies the item or items paid by such check.
2. To leave in the hands of the payee a memo. of the item or items covered by each check.
3. To provide forms of uniform size to facilitate filing, to which forms are attached, the invoice or invoices covered by each check and on which the proper officers may affix their signatures to approve the payment of the invoices so attached.

As these forms are more or less optional, they naturally vary considerably according to the tastes of the management of each concern. A typical "voucher" and check is shown

REGISTER

........................19

AMOUNT OF VOUCHER	FREIGHT DUTY & BROK.	TOTAL LAID DOWN COST	DISTRIBUTION					
			RAW MATERIALS	FACTORY OVERHEAD	GENERAL OVERHEAD	MISCELLANEOUS		
						ACCOUNT	√	AMOUNT

Register

in Illustrations No. 208 and No. 209. These are arranged so that both sheets can be typed in one operation. The first sheet goes to the payee, who detaches the memo. of items paid and cashes the check portion. The second sheet is the one to which the purchase invoices are attached for filing.

§ **391. Some Notes on the Cash Book.** In practice a great many different styles of Cash Books are found. Three distinct types have already been illustrated, but it is necessary to comment on several common features in other types of Cash Books.

Many bookkeepers do not keep either Bank Account or Cash Account in the Ledger, but carry forward the bank balance and the cash balance (if any) from month to month in the Cash Book. The advantage of this plan is that the bank balance can be ascertained at any time during a month by simply footing the two bank columns and subtracting the totals. The disadvantage is that a Trial Balance *cannot* be taken from the General Ledger alone, but has to include the Cash Book balances.

Many concerns keep two Cash Books—a Cash Receipts Book and a Cash Payments Book (the latter often being known as a Bank Journal or Check Register). As the titles will indicate, all receipts are entered in the former and all checks, etc., in the latter. The plan is an excellent one, except in the case of very small businesses. It enables more than one bookkeeper to work on the cash at the same time, economizes space, and assists concerns who only require to enter the checks and bank credits monthly but who wish to record the receipts from day to day. A larger number of analysis columns may also be used if two Cash Books are kept without making either book of unwieldy size.

In the case of many concerns the Cash Discount columns in the Cash Book are kept as memorandum columns only. This method can best be illustrated by a comparison. Supposing John Jones pays his account of $500.00 by cash $475.00, the balance being cash discount. At present you enter this in the Cash Book as follows :—

		Accounts Receivable. *Cr.*	Cash Discounts. *Dr.*	Bank. *Dr.*
	John Jones	$500.00	$25.00	$475.00

By the other method the entry would be :—

		Accounts Receivable. *Cr.*	Accts. Rec. *Cr.* / Cash Disc. *Dr.*	Bank. *Dr.*
	John Jones	$475.00	$25.00	$475.00

In posting by the latter method John Jones's account would be credited separately with $475.00 Cash and $25.00 Discount. It is often an advantage for purposes of granting credit to customers to have the customer's discount record showing right on the face of the account. Where the latter method is used the total of the Discount column will, of course, be posted :—

Cash Discount	*Dr.*	
To Accounts Receivable		*Cr.*

§ **392. Trial Balance Book.** It is possible to save a considerable amount of time in taking off monthly Trial Balances by using a "Trial Balance Book" arranged in such form that it is only necessary to write the names of the accounts *once* for a number of months.

$17.00 THOS. RICHARDSON CO., LTD. No. 3901

TORONTO, Ont., September 15, 19

Pay to the order of Thomas F. Grainger--

Seventeen---00/100 Dollars

To

THE CANADIAN BANK OF COMMERCE

10-2 TORONTO, Ont.

THOS RICHARDSON CO., LTD

Thos Richardson

MANAGING DIRECTOR

Wm A Beatty

SEC TREAS

DETACH THE ABOVE CHECK AND RETAIN THIS REMITTANCE SHEET FOR REFERENCE

THOS. RICHARDSON CO., LTD

STATEMENT OF ITEMS PAID Sept. 15, 19 BY CHECK NO. 3901

DATE OF INVOICE		PARTICULARS	AMOUNT		DATE OF INVOICE		PARTICULARS	AMOUNT	
Aug.	3		7	50					
"	19		9	50					
			17	00					

Illustration No. 208 "Voucher"—First Sheet

17.00

CHECK NO.
3901
VOUCHER NO.

September 15,

Thomas F. Grainger--

Seventeen---00

APPROVED FOR PAYMENT

A L Armstrong

PURCHASING AGENT

FUNDS AVAILABLE FOR PAYMENT

H H Farr

CASHIER

THOS. RICHARDSON CO., LTD.

STATEMENT OF ITEMS PAID Sept. 15, 19 BY CHECK NO. 3901

DATE OF INVOICE		PARTICULARS	AMOUNT		DATE OF INVOICE		PARTICULARS	AMOUNT	
Aug.	3		7	50					
"	19		9	50					
			17	00					

Illustration No. 209 "Voucher"—Second Sheet

Illustration No. 210 shows a Trial Balance Book of this type. It will be noted from the illustration that this Trial Balance Book by an arrangement of extension columns and long and short leaves enable a large number of monthly Trial Balances to be taken off without re writing the account names. Columnar Trial Balance Books can be purchased from stock at most office stationers.

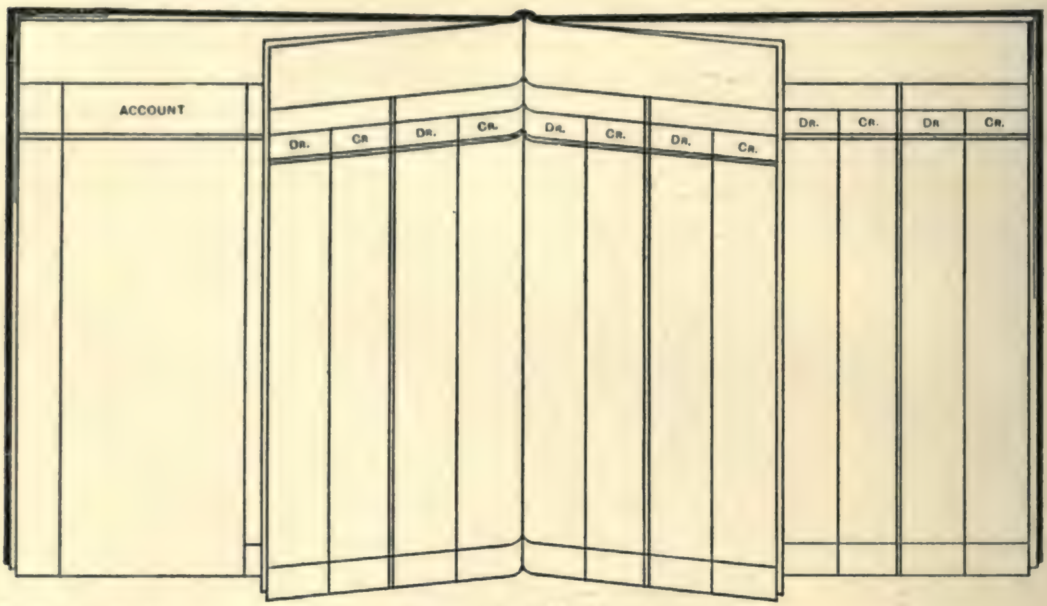


Illustration No. 210 Columnar Trial Balance Book

§ 393. Subsidiary Ledgers. Analysis Sheets. In § 282 we described a method of keeping a Subsidiary Expense Ledger on Analysis Sheets. The chief advantage of the method was found to be that it was possible to obtain an analysis of the expenses in far greater detail than would be practicable if the analysis of the expenses were kept in the form of general ledger accounts or in a subsidiary ledger of any orthodox ruling.

The principle of reducing the number of general ledger accounts and of increasing the volume of work which is kept in subsidiary ledgers is one that finds increasing favor, particularly in large offices, where it is necessary to have a minute subdivision of the bookkeeping work in order that a large number of clerks may be employed in keeping the books. In planning subsidiary ledgers such as would be used in a large office, however, it is not always practicable to use ledgers or ledger sheets of orthodox form. The very informal Expense Ledger, which is nothing more than a simple analysis of the Expense Account, illustrates the extent to which it is sometimes necessary to "break away" from customary rulings. Whenever a subsidiary ledger (or any other accounting record) complies with the basic principles of double-entry bookkeeping and shows correct results, it may quite properly take any form that is suitable for the required purpose. The point is admirably stated in *The Philosophy of Accounts* by the late Professor Charles E. Sprague :—

> "The form . . . is a matter of convenience rather than of prescription. While custom should not be deviated from without cause, it has no claim superior to utility."

The analysis sheet can be used to advantage as a subsidiary ledger under many circumstances, as it effects a reduction in the number of general ledger accounts, and consequently makes the books of original entry simpler in ruling and less cumbersome in size.

As a further illustration of the method the author of this Part recently came across the following system in a department store. Although it handled a large volume of business, the store in question had but one Merchandise Purchases Account in the General Ledger and only one "Merchandise" column in the Purchase Journal. A junior bookkeeper was kept busy, however, in writing up a Purchase Analysis in which the purchases were classified among more than one hundred departments. The total of the Purchase Analysis was agreed periodically with the balance of the Merchandise Purchases Account in the General Ledger.

§ 394. **Indicating Cancelling Items.** In Ledger accounts which have a considerable number of entries many bookkeepers adopt the excellent practice of marking paid items on both sides of the Ledger account with letters as shown by Illustration No. 211 :—

ACCOUNT W. A. Miller, RATING G 3 ACCOUNT No. 1
ADDRESS 495 St. Catharine St. E. City LIMIT $400 SHEET No 1

DATE		MEMO.	DISC'T DATE	FOLIO	DEBITS		CREDITS		Dr BALANCE	Cr BALANCE
Mar	4				a	96 72				
"	5				a	100 20				
"	10				b	40 22				
"	15						a	196 92		
"	16				b	24 50				
"	18						b	10		
"	19						b	54 72		
"	20					105				
"	25					25				
"	26							15	115 –	

Illustration No. 211

The practice indicated in the above illustration is very useful where the accounts are voluminous, as it plainly shows which item each particular payment covered. This is sometimes very desirable for future reference. It also shows which particular items make up the balance at any time. For instance, referring to the illustration, it will be seen that the items not marked with letters are the ones that make up the balance of $115.00.

§ 395. **Private Ledger.** In some concerns the management desires that the facts which would be shown by some of the General Ledger accounts should not be revealed to the office staff. A condition of this sort is met by opening a separate subsidiary ledger, which is known as the "Private Ledger." The accounts, with respect to which secrecy is desired, are kept in this ledger. For instance, Brown & Robinson are in partnership, and it is mutually desired that information as to the investments of the partners, the amount of the bank loans, and the amount of a mortgage on the firm's real estate should not be

revealed to the office staff. If a Private Ledger were opened in this case, the General and Private Ledger Trial Balances would appear in the following manner :—

GENERAL LEDGER TRIAL BALANCE.

Bank Current Account	$550.00	
Accounts Receivable	10,750.00	
Equipment	1,000.00	
Real Estate	10,000.00	
Accounts Payable		$5,000.00
Purchases	25,000.00	
Sales		30,000.00
Expenses	5,250.00	
Private Ledger Controlling Account		17,550.00
	$52,550.00	$52,550.00

PRIVATE LEDGER TRIAL BALANCE.

Bank Bills Payable	$4,000.00
Mortgage on Real Estate	5,000.00
Brown	7,000.00
Robinson	1,550.00
Balance of Private Ledger	$17,550.00

The Private Ledger is often kept in conjunction with a Private Journal, in which entries of a confidential nature are made. In posting entries from the Private Journal, the person responsible for keeping the private books usually calls the posting to the General Ledger keeper, any portion of the Private Journal entries which affect accounts in the Private Ledger being simply posted to the debit or credit of Private Ledger Controlling Account.

In companies having a large office staff the secretary-treasurer will usually be found to have a sufficient knowledge of bookkeeping to keep a Private Ledger and a Private Journal. In small businesses having but one bookkeeper these books are usually kept by the auditor, there being so few entries that he can easily write them up monthly. The private books are usually fitted with a lock. The nature of the accounts which would appear in the Private Ledger would, of course, be governed by the circumstances of each case.

§ **396. Ledger Accounts Ruled for Departments.** In § 295, when taking up Departmental Accounts, you were instructed to open separate Purchases, Sales and Inventory Accounts for each department. Another method that is sometimes used to advantage instead of having separate accounts for departments is to have a specially ruled ledger for the departmental analysis. The following will illustrate :—

MERCHANDISE SALES.

Date.	Particulars.	Text Books.	Stationery.	Total.	Date.	Particulars.	Text Books.	Stationery.	Total.

§ **397. Filing Vouchers.** The bookkeeper can facilitate reference for himself and save time for the auditor by keeping all vouchers properly filed. Vouchers are preferably filed flat in Shannon files, which should be covered to keep out the dust. Under no circumstances should vouchers be folded into document size and filed in document files, as this objectionable practice necessitates unfolding each voucher and also makes them very hard to handle, thus wasting a material portion of the auditor's time. Needless to say, vouchers

should be filed quite separately from correspondence. Vouchers that require filing in almost every office are of three classes :—

1. Purchase Journal vouchers ;
2. Cash Book vouchers ;
3. General Journal vouchers.

A separate file, or section of a file, should be kept for each class.

Purchase Journal vouchers, which will consist entirely of invoices, should be consecutively numbered and filed in numerical order. A column headed " Invoice No." should be ruled in the Purchase Journal and the invoice numbers written in this column. Many of the best bookkeepers, in posting to the Purchase Ledger, do not put the Purchase Journal folio in the " Folio " column in the Purchase Ledger, but write the invoice number in this column instead. This enables them to refer direct from the creditors' accounts to the invoices in the voucher file. All purchase vouchers should be approved at least as to the following :—

(*a*) The quantities and the quality of the goods received or the services rendered ;
(*b*) The extensions, additions, and other calculations ;
(*c*) The prices charged ;
(*d*) An approval for payment by the manager or other responsible official after the invoice is approved as to (*a*), (*b*), and (*c*) ;

and should, in addition, be plainly marked with the date the goods were received or the services rendered.

Cash Book Vouchers will consist of cancelled checks, paid drafts and notes, bank debit slips, receipted statements and invoices, payrolls, etc., for charges made direct from the Cash Book to nominal or fixed asset accounts. A satisfactory method of filing these is as follows. The numbers of all checks, which will in most cases form the largest number of bank credits, should be shown in the Cash Book in a column provided for such numbers. After the bank account has been reconciled the returned checks should be filed in numerical order. Then other bank vouchers such as paid drafts and notes and bank debit slips should be filed with the checks in the order in which they are entered in the Cash Book. These vouchers should be given the number of the check which they follow when entered in the Cash Book. For instance, if Check No. 1745 is followed by two paid drafts, these drafts would be numbered 1745A and 1745B, and be filed as if they were checks. Vouchers other than bank vouchers, such as receipted statements, invoices and payrolls, should be filed under the corresponding bank vouchers and be marked with the number of the check or other bank voucher. Invoices, payrolls, etc., which support entries which are debited to other than Personal or Bills Payable Accounts should be approved by some responsible official.

Journal vouchers are few in number and of varied character. They should be numbered consecutively (the numbers being marked opposite the entry in the Journal) and filed in numerical order.

Some neat and orderly method should be designed for filing vouchers other than the three most common types described above.

§ **398. Merchandise Account.** The student has been instructed to keep several Merchandise Accounts for the various transactions which affect merchandise as follows :—

Merchandise Inventory ;
Merchandise Purchases ;
Merchandise Sales ;
Merchandise Shipped on Consignment ;

also where considered necessary :—

Purchase Rebates and Allowances,
Sales Rebates and Allowances.

This is in accordance with the best modern practice, but it is not so many years since it was the common practice to keep one Merchandise Account only, to which all the above transactions were posted. This older plan is still found in some offices. Where it is used

the only method of obtaining the results necessary to prepare a trading statement is to analyse the Merchandise Account.

§ **399. Synoptic Journal.** The " Synoptic Journal " is a columnar book ruled after the manner of a columnar journal but having a sufficient number of columns to enable it to be used as the *only* book of original entry. In addition to entries that are ordinarily entered in the Journal, columns are provided that enable Cash, Purchases, Sales, Bills Receivable, Bills Payable, and, in fact, *all* entries to be made in the one book.

It will be seen that a book of this nature having sufficient columns to take care of all active accounts must be very unwieldy. In fact, it is a reactionary development of accounting methods, as the best methods have tended towards a greater subdivision of books of original entry. This subdivision enables a number of bookkeepers to be employed, each on a separate book, reduces the risk of error, and is economical.

The Synoptic Journal appears to be largely an invention of manufacturing stationers with a view to selling large and expensive loose-leaf sheets. It is seldom met with in practice, although it might conceivably be used to advantage in a very small business. Even in this case, however, its advantages are problematical. In a somewhat extensive professional experience, during which the author of this Part has had the opportunity of working on the accounts of many hundreds of business houses, both large and small, he has found very few Synoptic Journals in actual use. In the majority of cases they were discontinued after they were used a very short time because they were too cumbersome.

§ **400. The Imprest System.** The student is already familiar with the Imprest System as applied to Petty Cash. This system can be used to advantage not only for Petty Cash but in any circumstance where the conditions are similar to those met with in connection with Petty Cash.

For instance, advances to travelling salesmen, out of which they pay their travelling expenses, are best made in this manner. The traveller is given an advance, which shows in the books as a loan, out of which he pays his expenses. Periodically or at the close of each trip he turns in his expense account and receives a check. This check makes his advance intact and it remains so until he leaves the employer, when the advance is repaid.

The imprest system is also used to advantage in furnishing change funds for cashiers in retail stores, and for others who may be required to make change for customers. It enables the cashier to deposit the receipts in full daily and at the same time have a fund out of which to make change.

§ **401. Travelling Expenses.** In most well-organized businesses travelling salesmen are required to keep a record of their travelling expenses. Specially printed forms are usually provided for this record. In many cases these are in the form of a small booklet which can be easily carried in the salesman's vest pocket. Such booklets can be purchased from stock at most business stationers. Where the imprest system of handling advances for travelling expenses is used, the traveller's Expense Sheet or booklet is filed as a voucher for the check which is issued to him for the total.

§ **402. Interim Statements from Cost of Goods Sold.** In some concerns it is not practicable to keep a perpetual inventory which will enable the value of the merchandise in stock to be obtained monthly without the necessity of taking a Physical Inventory. This may be due to the nature of the goods, to the method of selling, or to some other difficulty.

Even where it is not possible to keep a Perpetual Inventory, however, the approximate cost of the merchandise on hand at the end of any month may be obtained if it is possible to keep a record showing the cost of goods sold. Such a record can often be conveniently kept by writing not only the amount of the sale but the cost of the goods sold as well on the

duplicate copy of each sales invoice. When this is done it is possible to recapitulate the sales in two columns :—

1. Sales,
2. Cost of Goods Sold ;

the second column when totalled would show the total cost of sales made during the period. From this figure we can obtain the cost of the goods unsold as shown in the following example :

EXAMPLE.

The Trial Balance of X, Y, Z & Co., Ltd., as at June 30, 19 , shows the following figures :—

Purchases	$5,280.00
Inventory, Jan. 1, 19	3,870.00
Sales	6,500.00

A record showing the cost of merchandise sold has been kept, which shows the cost for the six months to be $4,280.00.

Calculate the cost of goods on hand at June 30 and prepare Interim Trading Account for the six months.

ANSWER.

Calculation of value of Inventory, June 30, 19 :—

Inventory, Jan. 1, 19	$3,870.00
Purchases	5,280.00
	9,150.00
Less sales at cost	4,280.00
Inventory, June 30, 19 , *at cost*	$4,870.00

TRADING ACCOUNT.

Sales		$6,500.00
Inventory, Jan. 1, 19	$3,870.00	
Purchases	5,280.00	
	9,150.00	
Less Estimated Inventory, June 30, 19	4,870.00	
		4,280.00
Gross Profit		$2,220.00

§ **403. Receipts and Payments Account.** In the case of a hospital, club, church, or similar organization which is not carried on with a view to profit, the account which corresponds to the Profit and Loss Account and which shows the income and expenditure of the organization, is not known as the Profit and Loss Account. The most common titles for such an account are " Income and Expenditure Account " and " Revenue Account." The essential principles of Double Entry Book-keeping are, of course, the same whether a concern is operated for profit or not, but it is not desirable that the account which shows the income, expenditure and surplus for the year should bear the title " Profit and Loss Account " in the case of a concern which is not operated for profit.

In many organizations which are not conducted with a view to profit it is not considered necessary to keep a complete double entry set of books, in which case the only book that is kept is the Cash Book. Where a Cash Book only is kept the published Financial Statement usually takes the form of a summary of the cash receipts and disbursements for the year. This statement is usually known as a " Receipts and Payments Account " or " Receipts and Disbursements Account."

Owing to the similarity of the terms " Receipts and Payments Account " and " Income and Expenditure Account," persons not acquainted with accounting often assume that the two statements are identical. This, of course, is not so. Receipts and Payments Account is merely a summary of cash received and paid during a given period, while an Income and Expenditure Account includes all income earned during a given period (whether actually received in cash or not), and only that expenditure incurred in earning the income (whether actually paid for in cash or not).

Suppose you were asked to prepare a statement of Receipts and Disbursements and a statement of Income and Expenditure for the same business and for the same period. These statements might differ in many respects. For example, cash might be received for income earned during the previous financial period. This would be recorded in the Receipts statement but not in the Income as the amount does not represent income earned for the period under review, but for a previous period. Similarly, money might be expended for coal which would not *all* be used or consumed during the period in question. All the money so expended would be entered as a " Disbursement," but *only the value of the coal consumed in the financial period under consideration would be treated as Expenditure,* and that portion not consumed, although paid for, would be treated as a Deferred Charge in order that the future year's operation might be properly charged with those expenditures belonging to it. Capital Expenditures would not be charged in the Income and Expenditure Account, but if paid for in cash would be included in the Receipts and Payments Account.

Where double entry accounts are kept and an " Income and Expenditure Account " prepared, it would, of course, be accompanied by a Balance Sheet.

§ 404. Collection of Accounts Previously Written Off as Bad. It sometimes happens that a customer may become bankrupt and that the Statement of Affairs received from the Trustee in Bankruptcy indicates that the position of the bankrupt estate is so unsatisfactory that the customer's account is immediately written off as bad. Nevertheless the trustee may realize more from the estate than he anticipated, with the result that he may later be able to pay some portion of the accounts of the creditors. This payment may be received, however, during the year following that in which the account was written off as bad. Under these circumstances such a receipt may be properly credited to the Bad Debts Account for the year in which the payment was received.

§ 405. Auditing. Provision is made under most of the Companies Acts for the appointment by the shareholders of an auditor, whose duty it is to examine the accounts of the company together with the resulting Balance Sheet and Profit and Loss Account and to report on the correctness thereof to the shareholders. It is also a common practice when drafting partnership agreements to specify that the accounts shall be audited. The best practice is for the company by-laws or the partnership agreement to specify that the auditor to be appointed must be a chartered accountant.

The chief objects of an audit may be briefly listed as follows :—

1. The ascertaining of the exact financial position and earnings of the enterprise, in which the auditor has to keep in mind the interests of the various persons affected as follows :
   - (*a*) The proprietors or shareholders.
   - (*b*) The management.
   - (*c*) Prospective investors.
   - (*d*) Banks.
   - (*e*) Bond holders.
   - (*f*) Creditors.
   - (*g*) Promoters.
   - (*h*) Mercantile agencies and similar organizations (who represent prospective creditors).
   - (*i*) Law Courts (in the event of litigation).
   - (*j*) The Government (in respect to Income Taxes).

2. The detection of errors, which may be classified as follows :—
   (*a*) Errors of principle (*i.e.* where the amount of an item is correctly stated but the item not treated according to correct principles of accounting).
   (*b*) Clerical errors (*i.e.* errors in additions or postings).
   (*c*) Errors of omission (*i.e.* items entirely omitted from the accounts).
   (*d*) Errors of commission (*i.e.* items recorded but incorrectly recorded in the accounts).
   (*e*) Offsetting errors (*i.e.* a type of clerical error sufficiently important to be listed separately and which results from a double error of exactly the same amount which naturally would not be revealed by the Trial Balance).

3. The detection of fraud.
   (*a*) Misappropriation of money or goods.
   (*b*) Manipulation of accounts for other purposes (*e.g.* a manager employed under an agreement in which he shared in the profits might be tempted to overstate such profits).

4. The moral effect on the office staff due to the expectation of the auditors' visits, which results as follows :—
   (*a*) In the prevention of errors caused by carelessness.
   (*b*) In the prevention of fraud due to fear of discovery.
   (*c*) In the keeping of the bookkeeping and office work sharply up to date.

While the above indicates in a general way the objects of an audit, perhaps the main advantages derived by an enterprise which retains a competent auditor is that which results from his services in an advisory capacity, in which he is almost invariably called upon to act. The prosperity of many concerns is largely due to the advice of their auditor on such matters as costs of production or trading, finances, taxation, etc. It is also worthy of note that trustees in bankruptcy are invariably of the opinion that a large portion of the bankruptcies might have been prevented if the bankrupt concerns had had the advantage of proper accounts coupled with advice from a professional accountant.

Audits are of two kinds, Completed and Continuous. A Completed Audit is one in which the auditor commences work after the end of the year or other accounting period and completes the audit for the period at once. A Continuous Audit is one in which the auditor does most of his work during the year (usually either monthly or quarterly), leaving only a small portion to be completed after the end of the accounting period. A Continuous Audit has several advantages over a Completed Audit, as follows :—

1. Errors, etc., are more quickly discovered and rectified.
2. The bookkeeping staff is kept more closely up to date with its work.
3. A more detailed audit is practicable.
4. The audit can be completed soon after closing the books.
5. The auditor is more valuable in his advisory capacity.

When an auditor is retained the bookkeeper should prepare and have ready for him before he commences active work, the following :—

1. A schedule of books and records and the names of the clerks responsible for keeping them.
2. Trial Balances (which balance) for both General and Subsidiary Ledgers, schedule of both Bills Receivable and Payable, inventories properly priced and calculated and all other necessary data of a similar nature.
3. All vouchers arranged in proper order.
4. Minute books and contracts affecting the accounts which may be at the office of the company's solicitor should be on hand.

§ **406. Graphic Charts.** In § 150 it was pointed out that it was easier to make intelligent comparisons of the results shown by the Profit and Loss Account when such results were worked out in the form of percentages. A still better method of comparing these and other accounting results is coming into general use. By this method, results are pictured in

the form of graphic charts. These charts may take a great variety of forms, depending on the nature of the facts to be compared, so that it will only be possible to give two examples.

EXAMPLE.

The following are the sales of X, Y, Z & Co., Ltd., for the years 19 and 19 , which you are required to compare in the form of a chart :—

	19 .	19 .
January	$19,800.00	$18,900.00
February	17,600.00	18,400.00
March	18,400.00	17,600.00
April	16,900.00	18,700.00
May	19,500.00	16,200.00
June	15,500.00	14,900.00
July	14,300.00	14,700.00
August	13,000.00	13,500.00
September	13,900.00	15,000.00
October	15,900.00	16,100.00
November	18,600.00	18,900.00
December	19,800.00	19,200.00

NOTE.—The sales for December, 19 , were $18,000.00.

ANSWER.

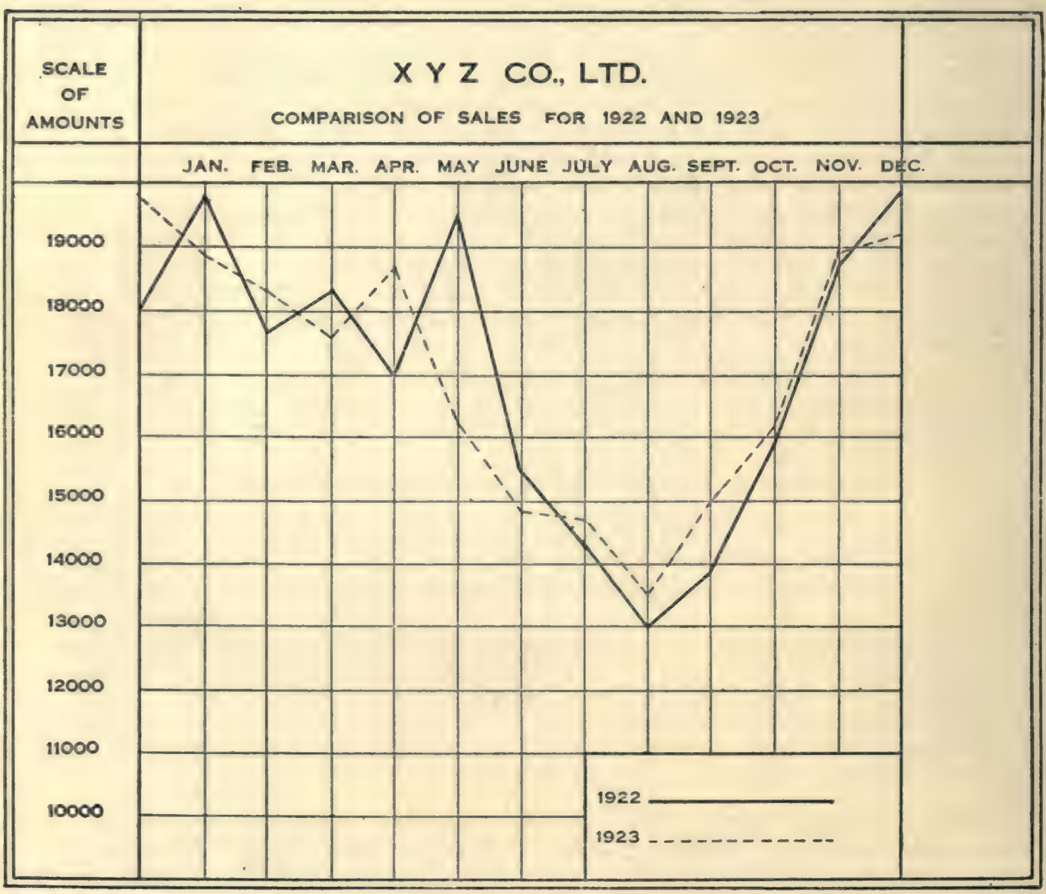


Illustration No. 212

If the student will study the above chart, he will, no doubt, be seized with the clearness with which the mind follows the monthly fluctuations in sales and at the same time compares them with the sales for the previous year. It is possible in a chart of the type illustrated to show as many years as desired on one chart by the simple process of using different types or colours of lines. The chart shown above illustrates the method of graphing one set of facts on a chart. In the following example we will illustrate a method of graphing two different but related facts, viz., Sales and Selling Expenses.

EXAMPLE.

The following are the Sales and Selling Expenses of O, P, Q & Co., Ltd., for 19 . Compare them in a form of a graphic chart.

	Sales.	*Selling Expenses.*
December (previous year)	$19,800.00	$750.00
January	18,600.00	760.00
February	17,300.00	730.00
March	15,200.00	680.00
April	13,400.00	540.00
May	12,200.00	720.00
June	10,400.00	680.00
July	11,300.00	590.00
August	13,700.00	460.00
September	14,600.00	590.00
October	16,500.00	760.00
November	18,700.00	650.00
December	19,300.00	810.00

The most convenient paper for charting is printed with squared ruling by which the paper is divided into inch squares. Each of these squares is in turn subdivided into ten parts both horizontally and vertically by lines ruled in lighter ink. Paper ruled in this manner can be purchased at most business stationers.

ANSWER, (See next page,)

§ **407. Partnerships.** It is an established principle of partnership law that partners may agree on *any* basis for the division of profits or losses or on any other matter affecting the partnership. A great many partnerships, however, are formed in a loose manner without any definite partnership agreement, either written or verbal. Where this condition exists, common law provides the following rules in so far as the division of profits or losses is concerned.

1. In the absence of definite agreement, no salaries are to be allowed to partners.
2. In the absence of definite agreement, partners are not entitled to interest on capital.
3. In the absence of definite agreement, partners share profits and losses equally, regardless of their respective capitals.

In dealing with the question of partners' accounts you were instructed to keep two accounts for each partner—a Capital Account and a Current Account. The Capital Account of each partner contained nothing but his actual investments, while all profits (or losses), drawings, etc., were posted to the Current Account. As pointed out in the footnote on page 212, certain decisions of the English Courts have indicated that this method is the one that carries legal approval and, regardless of the possible effect of such decisions on Canadian Partnership Law, there is a tendency to adopt this method as being better practice. Nevertheless, it should be pointed out that there is another method of keeping partners' accounts which is in very common use and to which no real objection can be taken.

Under this method, a separate " Drawings " Account is kept in which are accumulated the drawings for the year. At the end of the year this Drawings Account is closed and the total posted to the debit of the partner's Capital Account, while his share of the profits (or losses) and interest are also posted to the Capital Account. The Capital Account would then be closed and the balance brought down. This balance would constitute the partner's capital for the coming year. It will be seen that under this method the partners' capitals would change not only in amount but in ratio to each other each year. Of course under this plan no Current Account is kept.

ANSWER.

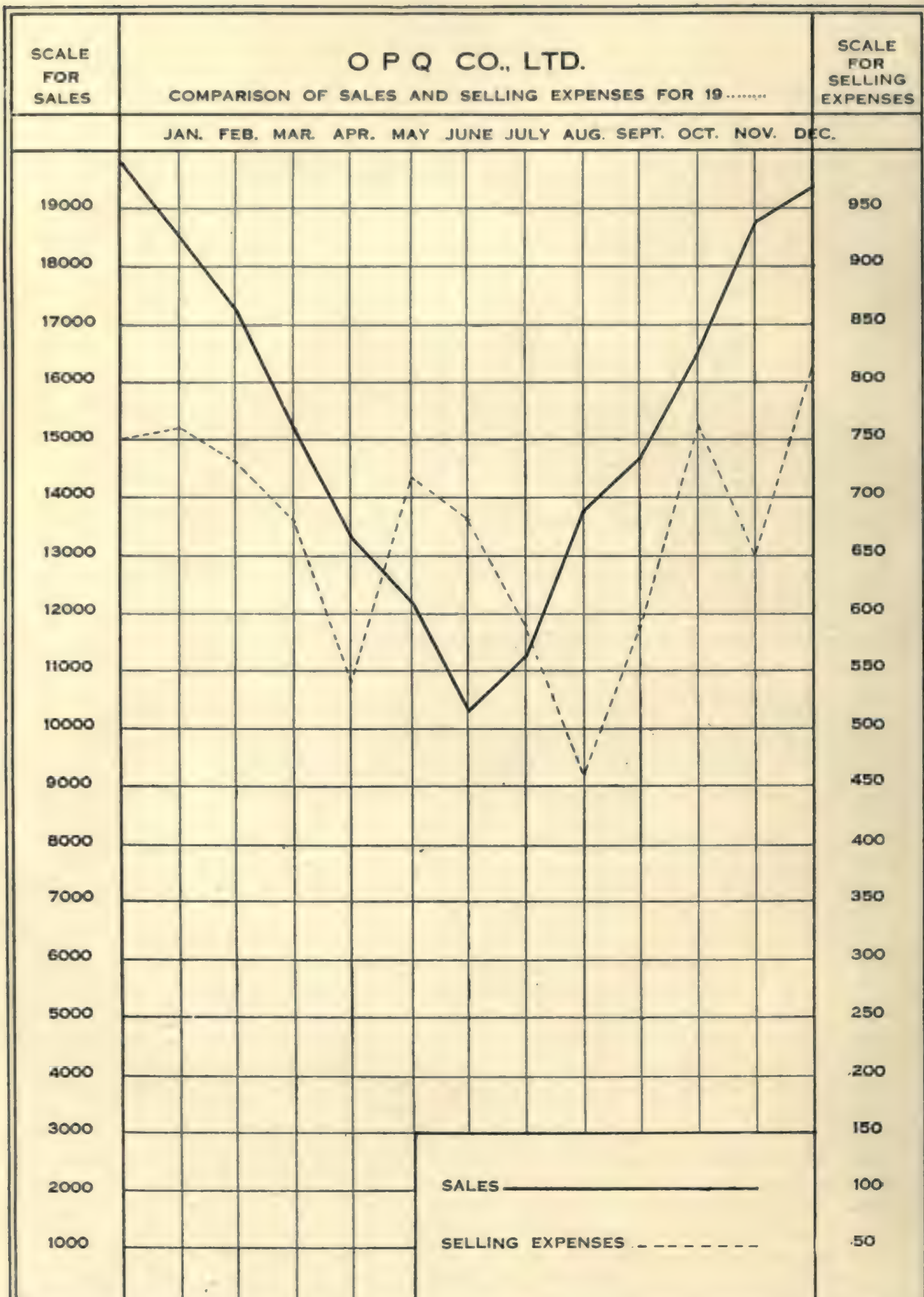


Illustration No. 213

EXAMINATION, SECTION 31.

All the following problems are taken from the Primary or Intermediate Examinations of the Institute of Chartered Accountants of Ontario.

1. A country store keeps its purchases and sales divided into 25 departments. The company keeps a Purchase Ledger in which accounts are kept with all concerns from whom it buys, whether for merchandise, expense, or plant. It is very necessary that all freight and duty charges shall be included as part of the cost against the items to which they belong.

   Rule up and explain a Purchase Journal for entering all invoices to suit the requirements of this company. The object of this book is to facilitate the finding of the profit or loss of each department. State briefly what other information is necessary to attain this result.

2. A wholesale firm intends to deposit all cash received and pay by check only. It is not the intention to keep ledger accounts with creditors. Name the books of account you would need for all purposes. Describe in detail the method you would adopt for recording purchases.

3. (*a*) How would you deal with the subject of Bad and Doubtful Debts in the books of account ?

   (*b*) How would you deal with an account collected three years after being disposed of as outlined in your answer to (*a*) ?

4. You are asked to open a set of books for a trading company, in what order would you arrange the accounts in the Ledger and why ?

5. Arrange a plan for keeping a Private Ledger with which the General Ledger will agree, and yet in no way reveal the contents of the Private Ledger. What matters are usually recorded in the Private Ledger ?

6. (*a*) State clearly the difference between a " Receipts and Payments " Account and an " Income and Expenditure " Account. What does the balance in each case represent ?

   (*b*) Draw up a Receipts and Payments Account and also an Income and Expenditure Account for the Muskoka Golf Club for 19 from the following :—

Cash Balance, January 1, 19	$314.25
Entrance Fees received	400.00
Subscriptions for 19 received	4,500.00
Subscriptions due and unpaid	750.00
Entertainment Fees received	320.00
Rent of Lockers received	90.00
Rent of Lockers unpaid	15.00
Wages paid	1,000.00
Rent and Taxes paid	450.00
Postage and Stationery paid	125.70
Furniture for Club House paid	100.00
Repairs, etc., paid	52.65
Interest on Mortgage paid	50.00
Rent due and unpaid	150.00

The Stationery Account included $26.40 for 19 and there remained unpaid a balance of $32.20 for 19 .

7. The following is the Trial Balance of the books of the Fine Furniture Co., Ltd., of April 30, 19 :—

Purchases	$52,887.50	
Rent and Taxes	2,327.50	
Interest	138.70	
Salaries and Wages—Selling	3,828.80	
" " " General	2,800.00	
" " " Office	825.00	
Delivery Expenses	600.00	
Office Expenses	227.80	
General Expenses	3,287.20	
Advertising	1,808.65	
Cash on hand	289.20	
Bank Balance	877.50	
Inventory Merchandise, Oct. 31, 19	38,728.35	
Furniture and Fixtures	4,828.75	
Dividend paid, Dec. 1, 19	3,200.00	
Sales		$65,000.00
Discount Received		887.45
Bills Payable—Bank		3,000.00
Accounts Payable		6,338.25
Reserve for Depreciation		1,200.00
Profit and Loss Account, Balance Oct. 31, 19		8,229.25
Capital Stock—Paid up		32,000.00
	$116,654.95	$116,654.95

A record has been kept of the cost of all merchandise sold, which shows the cost for the six months to above date to be $42,785.35. There are accrued taxes to date not entered in books of $75.00, but all other expenses have been paid or provided for. Depreciation, however, has to be charged for the six months of $225.00.

Prepare :—

Balance Sheet.
Trading Account.
Profit and Loss Account.
Percentage Statement of Gross Profit, Expenses, etc., to Sales.

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